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Dick Maggiore: Grow your company by growing your reach

By Dick Maggiore Special to The Canton Repository
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Marketers have heard for generations that 80 percent of our business comes from 20 percent of our customers, but a strong case can be made that this generalization doesn't much apply anymore — if it ever did.

You might have heard of the Pareto Principle. You also might know it as the 80/20 Rule. It is used to convey the notion that experiences in life, including business, are not distributed evenly.

In business, it is often said that 80 percent of our profits are from 20 percent of our customers. Again, we question whether this applies to the marketplace.

If the 80/20 ratio is true, than why not just fire the 80 percent of your customers who are only responsible for 20 percent of your business and profits? Think of the potential savings.

Many, maybe most, accept the 80/20 Rule as gospel. Fact is, however, that quite a bit of research exists that says it's really closer to 80/50!

For example, this would mean that 80 percent of your business comes from 50 percent of your customers rather than 20 percent. This could mean that 80 percent of your profit comes from 50 percent of your customers rather than 20 percent.

Why does this matter? I submit to you that it matters a great deal. The 80/50 ratio would have a dramatic effect on your business strategy and your **marketing strategy**.

Think with me for a moment. Let's assume the 80/20 Rule has merit. We might interpret that to mean to focus on only 20 percent of our customers. Consider, too, that we are in 2017, a digital revolution time period offering so many ways to target buyers at lower costs.

Have we finally found the promised land?

Probably not. For one thing, we now know the 80/20 Rule doesn't apply here and the actual ratio is closer to 80/50. That means our target audience is much bigger. It stands to reason the 50 percent group is broader, less homogeneous than the 20 percent.

Another issue is our best customers — the heavy-users — churn. They leave.

This phenomenon is called the leaky-bucket syndrome, and every company has it. Depending on the industry, you might lose 10 percent to 20 percent or more of your best customers each year. Some die. Some get angry. Some move. Others find a competitive product or service they just like better.

Bottom line: They will need to be replaced.

Acquisition is the antidote. Your goal is to gain market share in your category. Along with higher market share you should enjoy higher margins due to the economy of scale.

Another study showed an increase in market share increases customer loyalty. Yet another showed an increase in market share increased customers' purchase frequency.

So, how do we gain this market share?

Marketers have been pushed, brainwashed and otherwise persuaded to invest disproportionately in their heavy-users. It does seem intuitive. Why wouldn't we go after them?

What seems more likely? Getting a heavy user to use even more? Or, convincing a light- or medium-user to use more?

Also consider that light- and medium-users typically outnumber heavy-users. A larger audience is a more tempting target. In fact, the light- and medium-users are your best opportunity to grow your brand.

While advertising to your light- and medium-users, your heavy-users are likely to notice because they have a stronger attraction to the category. That's a double win.

Most consumers in a category buy more than one brand in that category. In fact, research shows the heavy-users in a category are more likely than the light- and medium-users to use more brands in the category.

So, because our consumers do come and go, we need to acquire new customers, suggesting a strategy with a broader reach.

Over the past year, we've seen the largest advertisers in the world shift some ad dollars back to the mass-media outlets. They include Proctor & Gamble, Unilever, PepsiCo and many more. This same media strategy applies to local advertisers.

Facebook has changed the way it talks to advertisers. Rather than just talking to your own brand loyalists, say Pantene shampoo users, now Facebook can target the entire shampoo category or the even broader personal care products category.

This is working out well for Facebook because its user base just surpassed 2 billion monthly users. It's not hard for it to share your ad with your category users anywhere, any time.

So today we see value from targeting your product's category rather than your brand's heavy-users. That's a paradigm shift.

TV reaches more adults than any digital property, including Facebook, according to Nielsen. And radio, according to a just-released study by Nielsen, reaches even more adults each week than TV.

Other traditional media — including newspapers, magazines and billboards — should not be overlooked.

Targeting your message with digital marketing online has become part of the integrated media budget. To grow your brand, however, you must have "reach," targeting light- and medium-users in your category, not just your own brand's heavy-users.

The most efficient and effective way to distribute your message is with more broad-reach media. Traditional media must be part of the media mix — likely even the majority of your media spend.

Essentially, we have one lever if we want to grow market share. You must acquire new customers, which requires reaching more broadly. By targeting the light- to medium-users of your brand's category, you have the best opportunity to win market share.

Dick Maggiore is president and CEO of Innis Maggiore, founded in Canton in 1974 and today the nation's leading positioning ad agency, building strong brands for companies in competitive markets here and across the country.

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