

BY DON E. SCHULTZ

PARETO PARED

MOST EVERY MARKETER has heard of, if not used, the Pareto Principle. Pareto, you'll recall, was the Italian mathematician who discovered the uneven levels of proportions. For example, that 80% of the volume of something is often accounted for by a disproportionately small portion of the contributing factors, generally 20%. Thus, while all statistical analysis is based on the assumption of a normal curve, that is, a bell-shaped distribution, for marketing activities the 80-20 rule is far more valuable.

The Pareto Principle has been widely used in market segmentation. Dik Twedt, writing in 1964, first suggested the "heavy half" theory, which says that half of a brand's customers account for disproportionately larger amounts of a brand's overall volume. Segmentation refinements have continuously emerged as better data and analysis have enabled marketers to learn who a brand's customers are, how much they buy, how often they buy and so on.

While there have been rumblings about the importance of smaller and smaller numerical segments—for example Don Peppers and Martha Rogers were suggesting one-to-one marketing in 1996—most marketers have stuck with relatively generous customer segmentation methodologies, like those that don't leave anyone out. Now, however, segmentation thinking may have to be revised.

It seems that in most consumer product categories, around 4% of a brand's consumer base is driving most of its business—and profits. That means Pareto has been pared, perhaps permanently, in marketing. And that 4% is not just in the number of customers buying and using the brand; it applies to volume, margin and even advocacy.

The 4% rule comes from Catalina Marketing Corp. data. Catalina, based in St. Petersburg, Fla., is the organization that generates those product coupons at supermarket checkouts. Based on your frequent shopper number, they know what you bought in past visits to the same store. Using nifty algorithms, the system provides you with relevant coupons to be used on your next shopping trip. Since they have all that data on your purchases (Oh, don't worry. They don't know who you are. You're only a shopper number to them.), they can determine who bought a certain brand, when brand switches or returns to the original brand occurred, what brands were bought on discount and so on. That's the source of the 4% number.

That's pretty scary stuff for marketers. Just 4% of the people who buy brands in a supermarket dominate the total purchases in that category.

That doesn't mean sales volume is down. It only means customer counts are down, or maybe they never were up.



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So the mass market, even at 20% of all users, which is the amount many marketers have assumed for years, isn't really mass at all. It's fairly small and it's fairly consistent over time. It's just that 4% group buys substantial amounts of the specific brand.

As if 4% of consumers ruling the brand and category weren't enough, even more disturbing mass-market news comes from Priva Technologies Inc. in Chicago, a new consumer products data analytics group. Using supermarket frequent shopper data, Priva recently announced that in an analysis of the 50,000+ SKUs carried in today's grocery stores, the average consumer purchases less than six-tenths of 1% of those SKUs during the year. Further, while supermarket selections range from 50,000 SKUs in small stores to more than 100,000 in giant discount centers, the average consumer has an experience SKU library of only 300 or fewer. In other words, the supermarket is geared for mass. The consumer is geared for less.

That's really paring Pareto.

The problem with all this new data that suggests that very small groups of customers drive most brands is the chasm that seemingly exists between that knowledge and how too many brand managers still run their businesses today. Brands still seem to be chasing mass—mass markets, mass media, mass distribution, mass everything—when there doesn't seem to be much mass out there at all.

Why is it that, if small numbers of customers are driving sales, brand managers continue to chase the mass-market rainbow? They seem to assume that because their production lines run off economies of scale, they have to follow those same scale economies in distributing their marketing

programs. Mass markets require mass advertising and mass promotions and mass distribution of coupons and offers through Sunday newspaper inserts.

Somehow, there's a disconnect here. Marketers know, or should know, that small numbers of people account for a disproportionate share of their brand sales. Yet brand managers continue to chase boxcar numbers for their promotional spend and moan and groan when TV viewing is down.

During these difficult economic times, one would think brand managers would welcome the 4% customer base news. That number would seem more manageable for reduced budgets. Brands might even be able to thrive on the slimmer marketing funds available. It might even encourage them to cut waste. Yet all I hear are complaints like: "Help me find ways to get our spending levels back where they were," and "Our share of voice is down, we need more money," and "Help me argue for over-spending now to get returns later on."

If the brand manager really must market to that critical 4% or even an additional 2% more to grow, is mass anything really needed?

Maybe the key to surviving this recession is through spending smarter, against the 4%, rather than trying to generate economies of scale in distributing to the mass market. The pared Pareto Principle may be just what marketing needs in these difficult times to survive and grow. **m**



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