

# Hitting <sup>the</sup> Jackpot, Mining <sup>the</sup> Gold

## To maximise the value of one-to-one marketing managers must recognise that all high-profit customers are not created equal

In terms of name recognition, Wilfredo Pareto may not yet have reached the same heights as say Michael Jordan or Monica Lewinsky. Nevertheless, most marketers are now familiar with the results of the work of this 19th-century Swiss-Italian economist if not the man. Initially formulated to describe the concentration of wealth in society, the Pareto Principle became the '80/20 rule' when applied to the consumption of goods and services. Thanks to the surging popularity of one-to-one marketing, the well-documented fact that in virtually every category, a relatively small group of buyers – the high-profit segment – accounts for seventy to eighty per cent of total volume has taken on new importance and immediacy.

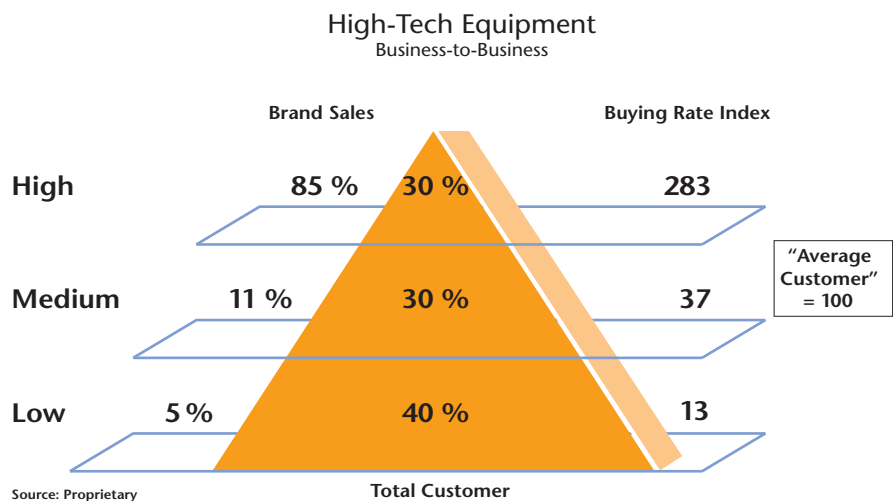
In the United States, for example, 22% of the adults account for 79% of the purchases of film for cameras. In the credit card market, 80% of transactions are conducted by just 25% of all adults. The hi-tech market shows a similar pattern. Thirty per cent of customers

account for 85% of sales. And these 30% buy 22 times more than a customer in the low volume segment (see box on this page).

With differences of this magnitude, it is no wonder that high-profit customers have become the prime target for most one-to-one loyalty-building efforts. Because these consumers buy the most, they hold out the most potential for growing sales through increased share of customer (also known as share of requirements) and reduced

attrition. As documented in the author's 1995 book, *All Consumers Are Not Created Equal* (John Wiley & Sons, New York and London), OgilvyOne has long been the leader in capitalizing on this phenomenon, making high-profit buyers the primary focus of most Customer Ownership programmes.

But the search for the most effective one-to-one strategies did not end with the publication of that work. As sound and as useful as the 80/20 rule is, it is only the starting point, not the final word, for one-to-one targeting efforts that fully leverage the potential of the brand's most valuable customers and prospects.



## Beyond Pareto: introducing POTs

What Pareto didn't discover is that the buying behaviour of high-profit buyers is rarely homogeneous. Even within that rarified group, there are surprising and significant differences in category consumption and brand buying habits. Moreover, there are often other consumers who deserve to be designated as 'high-value' if not 'high-profit,' even though they are not heavy category buyers. In fact, they may not currently use the category at all!

Because of this wide range of buying behaviour, marketing on a one-to-one basis to these most valuable consumers as though they were all cut from the same cloth is tantamount to trying to have the same kind of relationship with all one's friends and acquaintances, no matter how diverse they are. In effect, such an approach merely replicates in a smaller universe the mass marketing fallacy that all consumers are created equal.

A preferable alternative is to disaggregate the brand's most valuable customers and prospects into smaller Profit Opportunity Targets, or 'POTs,' each of which displays a unique buying behaviour pattern which can lead to a unique set of objectives, strategies, and one-to-one communications. Extensive analyses of consumer purchase histories for a wide variety of consumer goods and services reveals that virtually every brand has nine key POTs which are prime candidates for one-to-one efforts. Because of this universal pattern, each POT can be given a self-descriptive nickname, which aids both understanding and memorability:

### Nuggets

An extremely small and valuable group of super-heavy category users and highly loyal brand customers – both behaviourally and emotionally – that can account for as much as half of brand volume. For example, an analysis of the customer file of a major credit card revealed that Nuggets, who numbered about 1% of all adults, accounted for well over a third of all card transactions. What's more, Nuggets can account for an even greater percentage of brand profit because of their lower propensity to wait for a special deal before they buy.

### Backbones

A larger group who are also relatively loyal to the brand but who, although category heavy users, buy substantially less per capita than Nuggets. It is the size of this group, rather than the astonishingly high-value of any individual, that makes them the backbone of the franchise. Continuing the credit card example, the average number of transactions of each Backbone was only a third that of a Nugget. Nevertheless, because there were five times as many of them, as a group they accounted for almost half of all card volume.

### Jr. Nuggets

A group of medium category users, similar in behaviour to Nuggets except for their lower buying rate, whose emotional loyalty to the brand can border on the fanatical.

For a leading brand in a ubiquitous consumer goods category, where a broad brand repertoire is the norm, the brand's share of customer among Junior Nuggets exceeded 90%. These consumers are often former Nuggets and Backbones who, because of changing life-stages, are on the downslope of the category consumption curve.

### Jackpots

The mirror image of Nuggets and Backbones, these are super-heavy and heavy category users, for whom the brand is part of the considered set, but not the first choice. Generally, their behavioural loyalty is low, but not as low as their emotional loyalty. If a brand can win them over the payoff is huge, but the odds can be long because they are a competitive brand's loyal POTs – Backbones and Nuggets.

### Visitors

Super-heavy and heavy category users who include the brand in their considered set, but who demonstrate no primary loyalty – especially emotional loyalty – to any brand. These true 'switchers' are generally not as numerous as marketers fear, and they can be a valuable asset for boosting short-term volume because of their higher propensity to respond to promotional incentives.

### Lost Sheep

Super-heavy and heavy category users who once included the brand in their considered set but

who have defected from the franchise. An extreme example of their impact is the instant coffee whose Lost Sheep from one year to the next cost the brand almost 20 % of total volume.

## Acorns

Lighter category buying brand buyers who are loyal to the brand and who because of their particular demographic or attitudinal characteristics, or lifestyle, are likely to grow over time into Nuggets or Backbones, the mighty oaks of the franchise. The college and graduate school recruitment efforts of credit card companies are a good example of farsighted Acorn marketing.

## Suspects

Super-heavy or heavy category users who do not currently buy the brand but who display one or more key 'genetic markers' that make them prime candidates for acquisition efforts. More often than not, traditional demographic variables are not useful in identifying Suspects. Attitudinal segmentation or multi-variate statistical modelling are more productive alternatives.

## Dark Horses

Non-category buyers who because of some particular demographic, attitudinal, or behavioural characteristic, exhibit the potential to become high-value customers. A marketer of do-it-yourself products sending helpful information to new homebuyers would be a sound Dark Horse tactic.

# How to use POTs to grow your best customers

Once the initial classification of high-profit and high-value consumers into the various POTs is completed, the next step is to conduct consumer research that leads to insights about the attitudes or demographic characteristics that drive the observed brand and category buying behaviour.

### 1. Identify value propositions through research

Depending on the constraints of time and budget, as well as the complexity of the marketing situation, this research can be as simple and directional as focus groups or as exhaustive and precise as indepth quantitative surveys.

Regardless of the methodology, the objective is always the same: to identify and understand the targeted value propositions that will have the greatest leverage on brand loyalty and sales for each POT. Sometimes, that value proposition will be the same for all POT members. But often, there may be several different leverageable value propositions within a particular POT, with variations due to differing lifestages or need states of POT members. The end result in either case is a mosaic of highly targeted communications strategies that can be translated into highly involving and impactful creative selling messages.

### 2. Turn value propositions into targeted communications

Of course, that's not the end of the work to be done. Very few

marketing budgets are infinitely expandable, so prioritization of the one-to-one opportunities offered by each POT is a must, with some hard-nosed decisions to be made about redirecting current funds to the most productive options.

Plus, unless a marketer has a transactional database, such as a bank might have, much energy and thought needs to be put into creating channels and mechanisms through which high-value customers can identify themselves, as well as provide sufficient information to be placed into the correct POT. And finally, cost-effectively producing and coordinating a range of targeted communications, whether by mail or on-line or both, will always be more challenging than broadcasting the same message to the entire market.

### 3. The pay-off in increased loyalty and sales

But in most cases, the end result – increased brand loyalty and sales – is worth the additional effort, especially if decisions and actions are based on the solid targeting foundation provided by the POTs concept. By using Profit Opportunity Targets as a systematic planning tool, marketers have the ability to get an important leg up on both Pareto and their competition, truly understanding and leveraging the very real opportunities presented by one-to-one marketing. 