
Marketing Measurement – Applying the laws of Pareto to your business

At this stage most people have at some stage heard of the ‘Pareto Principle’ but how many of us apply it in a practical way to our marketing and business decisions? In this short article, I will outline some practical advice for its adoption in any company.

Firstly who was Pareto? Actually, the person responsible for this term was Vilfredo Federico Damaso Pareto, an Italian engineer who lived between 1848 and 1923. He made the interesting observation that in Italy 80% of the land was owned by 20% of the people and subsequently found that the same 80:20 rule applied across a wide range of areas in economics, sociology, mathematics, etc. Since then, the Pareto Principle or “80:20 Rule” has been adopted widely in business theory as a way of analysing efficiencies in areas such as sales, costs, profitability, etc.



So what does it really mean? The basic theory behind the Pareto Principle states that in most businesses 80% of the sales and profitability will come from 20% of your customers or products. Conversely, 80% of your customers or products will only contribute 20% of your sales and profitability. Taking this a step further, the Pareto Principle stimulates a business owner/manager to look at the following:

- The importance of retaining your top 20% of customers
- The costs of supporting the 80% of customers or products that only contribute 20% of value to your business. (Often the support costs for these 80% is similar to the top 20%)
- How available resources in a company should be balanced
- Etc

From a marketing perspective, Pareto has a wide number of applications which benefit decision making and planning. **Here are just 5 practical ways to use it for your business:**

1. Sales Leads

IMS Marketing
No.5 Lakeview Point, Claregalway Corporate Park, Claregalway, Co. Galway

Tel/Fax +353 91 739450
E-Mail. info@imsmarketing.ie

Web: www.imsmarketing.ie

VAT Number: 9732911F



Where does your business come from today? Are you accurately tracking this so you understand what sources are delivering a return on investment for your sales and marketing effort? Does it make sense to invest more resources in those areas that are performing and less in those that are not?

2. Website Performance

As a key area in most businesses, do you understand who is visiting your website, what pages they are visiting most, what online promotion and referral sources are bringing the most number of people to your website and which are not? Do you know where the focus of attention should be in the next three months?

3. Customer Support

Are you recording and reviewing customer complaints and suggestions on a regular basis? What are the 20% of issues which account for 80% of your support effort and are you investing more resources to proactively solve these issues? Do all customers deserve the same level of support – It may sound “customer unfriendly” but in reality not all customers have the same value to your business and deserve different levels of support. Are there customers that are unprofitable that you are happy for your competitors to look after?

4. Customer Understanding

If you have a large customer base, are you actively engaging with your top customers (the 20% which contribute 80% to your business) to understand their ideas, issues, needs, etc. Are they involved in your product development process?

5. Product Management

What products and services are delivering the most sales and profitability for your business and which ones are not? While every business wants to sell more, does it necessarily need to be with an increasing amount of products and services? Would resources be better spent focusing on the promotion of the products which have proven performance and profitability and drop products which are not performing?

IMS Marketing
No.5 Lakeview Point, Claregalway Corporate Park, Claregalway, Co. Galway

Tel/Fax +353 91 739450
E-Mail. info@imsmarketing.ie

Web: www.imsmarketing.ie

VAT Number: 9732911F



As these examples highlight, Pareto can be applied to almost every area, and most of which touch on the marketing function of your business. When applied the right way it brings **focus** to your analysis and future planning. It is important to state however that Pareto should not be interpreted as a risk adverse approach to business planning.

A business that only services existing profitable customers and products is unlikely to grow as quickly a one that invests in developing new market opportunities – use Pareto as a periodic tool for measuring performance rather than a fixed approach to strategy.

Finally, and perhaps most importantly, it is impossible to use Pareto and have objective marketing measurement without a system for capturing and reporting on key business data. **Information Technology is essential** therefore and in my experience progressive companies invest in CRM Systems, Customer Service Software, Online Analytics, Project Management Software, and other tools of this type deliver the objective intelligence needed to review and make informed decisions. In many cases, there are free or very affordable cloud based software products available to help companies in these areas. The biggest obstacle is not cost but rather the decision itself to embrace these tools in the first place.

Adopt the Pareto Principle in your business today and improve the productivity of your marketing effort.

If you are interested in this topic and would like to find out more information on how IMS Marketing can help, email us, we'd be happy to help. info@imsmarketing.ie