

HMI eBook

Smash the Pareto Principle

*A Guide for How to Cost-Effectively
Capture the Most from Small- to
Mid-Sized Customers.*



Introduction

When it comes to sales, we all want to improve. If a company is not improving or at least taking steps to improve, it will fall behind. Every market is shifting and adapting, especially in today's world, but the concept of staying ahead is by no means new. So, if the question is not, "Do we need to improve", then it's, "How do we improve?" Should you continually reach out to your best customers and try to squeeze even more from them?

"The biggest room in the world is the room for improvement."

— HELMUT SCHMIDT

This idea falls in line with the well-known Pareto Principle, which explains that generally, the top 20% of performers produce 80% of the performance or sales. According to this theory, the remaining 80% of customers or salespeople contribute only 20% of revenue even though they make up the great majority of customers you do business with.

Thus it would seem logical to believe that the people responsible for your best business could eke out a bit more for you. But instead of tightening your grip on your most fruitful — those in the top 20% — we want to suggest that it can actually be more worthwhile to pick the low hanging fruit: the middle 60%. This group of customers, commonly known as the "undiscovered", can offer a lot of potential for companies like yours.

But how? How can you maximize the untapped potential of this group, and by doing so, smash the Pareto Principle? That's the questions we'll explore here, so that by reading this guide, you will learn what you'll need to successfully uncover more revenue from these customers.

First, let's get into who makes up this middle 60% and why it's important for you to get to know them.

Here's what you'll learn:

- **Who are your middle 60% customers and why you should pay attention to them?**
- **Strategies and tactics to use while targeting this group**
- **Successes companies have had in middle 60% customer campaigns**



Who Are Your Middle 60% Customers and Why Should You Pay Attention to Them?

The middle 60%, or undiscovered, refers to the great majority of customers that do business with you: the small- to mid-size buyers. For most manufacturers and distributors, these customers can range in their contribution to your sales and revenue, but the percentage of revenue is typically found to be around 20%. For our purposes (and yours), this number just isn't good enough. If we are going to smash the Pareto Principle, we'll need to find a way to drive more consistent and/or robust purchasing behaviors from this group.

So, how do we get started? The middle 60% of customers lie just below the top level buyers and above the bottom level buyers. Ultimately they make up a wide range of customer purchasing behaviors, and, although buying behavior varies, it is safe to assume that the potential account penetration for these customers can be much higher.

This is because when your customers purchasing choices are discretionary—meaning they could spend it wherever (and with whomever) they please—they can choose to spend their money for one of these three reasons:

- they are leaning toward companies they have a genuine relationship with
- they're looking for the most competitive pricing
- they may have a "what's in it for me" behavior, in which case, they are looking for added value.

In light of these reasons, we've found that a common explanation for most shallow account penetration is a customer's feeling of being disengaged from your company if customers feel disengaged, it tends to be because of a lack of communication. It may sound simple, but asking for someone's business will often lead to business, especially when no other connective communication is being made elsewhere.

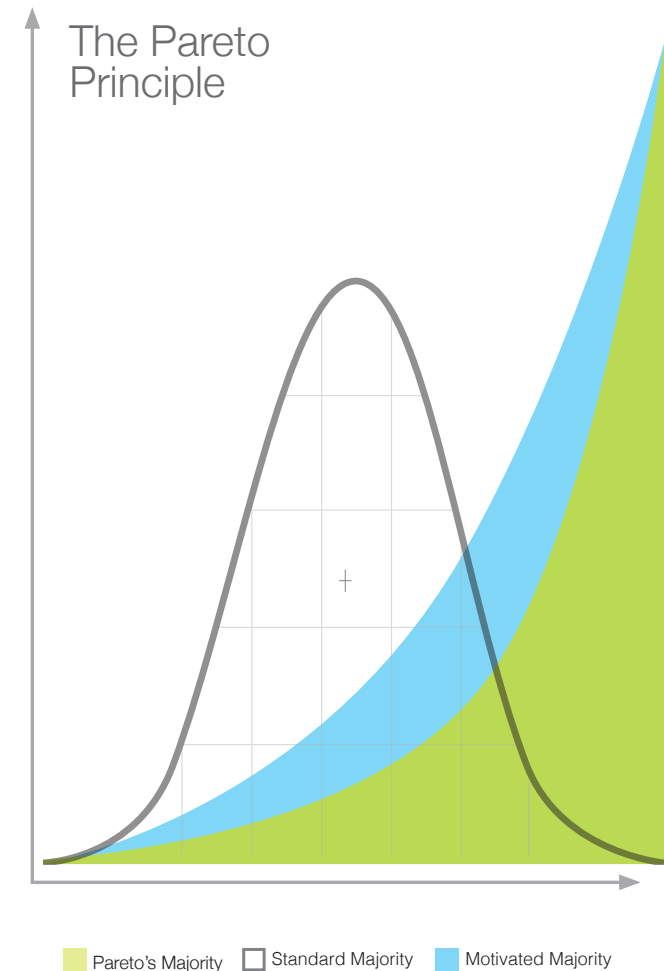
Think of it like trick-or-treating. Getting candy on Halloween

isn't necessarily a skill, but good trick-or-treaters know how to get their "unfair share." If you're traveling in a big pack of candy grabbers (your competitors), the ones that get the most candy will be the first ones to the door, yelling "Trick or Treat!" Standing out from the crowd can make the difference when it comes to acquiring new business from the middle 60%.

Unlike trick or treating, achieving this difference and generating further account penetration is certainly a skill, and a well-equipped, targeted campaign to the middle 60% of your accounts can often do the trick. If during this campaign, you can reinforce your brand through compelling marketing communications and a unique rewards structure, you should be able to give some of your customers a small, but significant added value of doing business with you.

This can make all the difference. After all, according to research done by Matt Harris at the Incentive Research Foundation, just a small increase in purchases can lead to a much higher percentage of growth within the middle 60% when compared with the same increase within the top 20%.

This means that even a small increase of one or two SKUs per invoice can lead to a significant gain in revenue and greater account penetration if that increase is implemented across the middle 60%. In this way, it can be argued that a campaign targeting the middle 60% of customers, if implemented correctly, will provide the best opportunity for ROI and gross profit increase.



Strategies for Targeting the Undiscovered

Again, the first and most important strategy when targeting middle 60% customers is marketing and communications. Engaging this audience and keeping them up to date on sales, product launches, and the like, can lead to an overall improvement in terms of account penetration. In order to improve your account profitability, you need to increase your sales through two cost-effective channels: marketing and motivation.

Lets talk marketing

Marketing and communications are tools used to help achieve overall growth and diversification by calling out differing product categories or specific products themselves on a regular basis. Increased awareness and visibility will help to push these products out to the middle 60% and increase your revenue.

You may already have steady in-person communication with the customers that give you the most business. Chances are, though, you probably don't have the ability or staff to have that kind of in-depth relationship with undiscovered customers. After all, there's a lot of them (three or more times the number of your top customers).

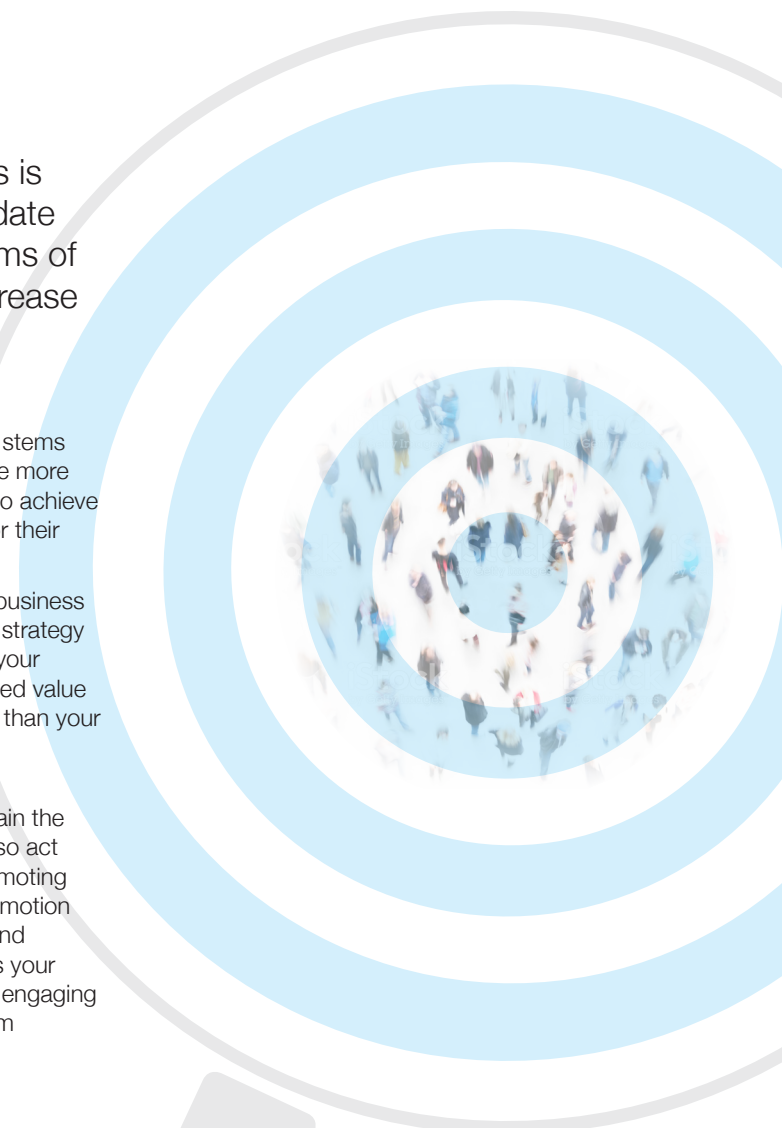
Due to the wide swath of buying behaviors present in the middle 60%, gaining 100% of the discretionary dollars from everyone is simply impossible. However, this strategy, in turn, can bring the buyers within the top tiers of the middle 60% to the surface and make their accounts much more profitable.

Lets talk motivation

The best increase from the undiscovered customers stems from an additional strategy, which plays on one of the more basic principles of capitalism: an aspirational desire to achieve a specific reward or to get something in exchange for their purchases. In other words: incentives.

You can motivate these customers to give you their business using incentive solutions and reward programs. This strategy helps shift the customer's share of wallet to get you your "unfair share." Incentives provide buyers with an added value to entice them into spending money with you, rather than your competitors.

If created and managed in the right way, incentive programs, can be the perfect way to gain and maintain the undiscovered audience. An incentive strategy can also act as a communications vehicle to these buyers by promoting a company's value-adds. It can also assist in the promotion of special offers, specific manufacturers' products, and new products. By providing rewards for the products your customers already need and use, you can create an engaging relationship and generate interest among the program participants for your business.



Tactics for Targeting the Undiscovered

Now that we have our strategies in place, let's talk about the tactics. Keep in mind that these tactics work best through an integration of the two previously mentioned strategies. Although they can work separately, the best practice is to utilize both strategies in construction and implementation of these tactics.



Short-Term Promotions provide opportunities for middle 60% customers to earn rewards based on buying behavior.

- Participants would be incentivized to buy a certain product or number of products. This kind of promotion can trigger a switch from competitors or an increase in heavy purchasing.
- These offerings can also be run concurrently with more standard incentive programs, meaning you can still target top performers without losing the rest of your audience.



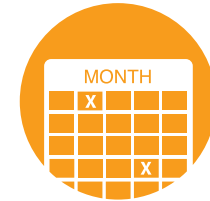
Sweepstakes Promotions that provide a more egalitarian approach to incentives, not necessarily guaranteeing a win, but enabling every participant an opportunity to win.

- Similar to a Short-Term Promotion, this tactic can be added on to provide value to both the top 20% and the middle 60%
- What makes these programs much more successful within the middle 60% is the implementation of multiple awards and many winners. The communications campaigns for these tactics can include "winner" announcement emails, so that participants can see who won, making the winning of these sweepstakes that much more tangible and motivating.



Personalized Goal Systems that are tailor-made to fit the performer. Customized content is ruling today's world: avatars, emails, emojis, you name it. If something is personalized, it's much more likely to get someone's attention.

- With this customized trend in mind, more personalized goals allow for the organizers of programs to set a monthly or annual goal for each and every participant within the program.
- If you're a middle 60% buyer, you would throw up your hands at a goal set for a buyer within the top 20%. With personalized goals, on the other hand, you now have a goal based on your buying behavior.
- It is important to structure these goals in the correct way. Best practices for these goals are usually based upon a percentage increase or revenue increase between earning periods (year over year, or month over month).



Monthly vs. Annual Goals that enable participants to earn and purchase while they can and don't require the same amount of capital necessary to succeed in a yearlong program.

- Similar to short-term promotions, monthly goals are a proven way to motivate the middle 60% by keeping programs top of mind for more people, as the goal/reward cycle is in quicker succession.
- For example, in an annual incentive program, a participant may have an annual goal of \$120K to earn and redeem points. If the earning structure changes to monthly, then he or she would only need to achieve \$10K a month to earn points.
- Imagine it as if you're climbing a mountain. Instead of taking a break whenever you hit a milestone, you're expected to get to the top at a breakneck pace, whether you're tired or not. Monthly goals can be the reward at each milestone on the climb. This allows a participant to still have "skin in the game" even if they do not purchase a lot in one month.

Successes stories: Middle 60% Campaigns

Now that we've discussed who the middle 60% customer is and how to go about attracting their attention and money, let's go through some case studies on how targeting this audience has worked for HMI's clients. We're going to show you three examples of clients that we have worked with using these types of programs, strategies, and tactics.

GROUP TRAVEL SUCCESS STORY

An HVAC distributor was already running a group travel program for its largest customers. Participants were sent on a cruise as thanks for their purchases throughout the year. The client sought greater market share in their territory and targeted additional growth expectations by focusing on their mid 60%. However, the client's mid-sized buyers were not able to achieve the same goals and would miss out on the trip.

HMI adapted the messaging to apply to the undiscovered group, and our *OnDemand* platform was utilized so that participants could monitor their progress.

Using this strategy to move the client's middle 60% found great success and huge ROI for the client. Despite the down economy of 2008-11, **the client recorded a cumulative growth in sales of 213.5% over three years of the program.** The program targeted mid-level customers, who consistently increased their business with the client by an average of 18.3% each year for 3 years.

To learn more, [click here](#).

POINTS PROGRAM SUCCESS STORY

A paint manufacturer wanted to target their distributors, a number that reached up to 10,000. Flipping the standard earning process of earning points, HMI instead had the target audience add rewards from the rewards catalog on the *OnDemand* platform to a wish list.

This tactic created a very personal, relevant, and engaging goal for the undiscovered customers because it enabled them to aim for rewards they felt they would be able to achieve.

HMI also had the client involve its sales organization. These employees knew the customers best and were aware of the accounts' capacities. With this guidance, goals and rewards could be more accurately determined and more easily achievable for these mid-sized customers. Without this approach, it's likely that the distributors that simply had one big project during the earning period may not have been as engaged by a simple stretch goal.

An extensive marketing plan was laid out for this program, which included personalized mailers, brochures, monthly email updates, congratulations letters, and more.

The program was a huge success, amounting in the participation of over 3,200 distributors. Participants surpassed their goals, on average, by 169.8%, resulting in an increase of incremental sales by \$12 million.

To learn more, [click here](#).

MONTH-TO-MONTH SUCCESS STORY

With HMI's guidance, a plumbing and HVAC supply client targeted the middle 60% of customers by using a **monthly point-earning structure**. The client also ran a "Presidents Club" program, in which top customers were invited to participate in a group incentive travel trip.

In the section of the program that targeted undiscovered customers, goals were set up month-to-month, creating a lot of account activation and engagement. Participants earned points based on their purchases but were not actually rewarded the points unless the goal was achieved.

As a bonus, once they exceeded their goal, these participants also earned double points for their incremental purchases through the end of the month. Monthly goals were based on each customer's unique purchase history from the same period the year prior.

The client saw great numbers for program adoption. In the month of July 2017, 96% of accounts that were activated met all or most of the goals set for them from January through May.

To learn more, [click here](#).

Conclusion

When trying to improve your incremental sales, increase your revenue, and build your customer base, look toward your customers that have the most potential to grow: your middle 60%.

Improve your profitability and increase your sales with your middle 60% through a cost-effective marketing and direct communication program. It's the meaningful connections, lasting relationships, and personal touches that will keep them coming back.

Motivate them using incentive solutions and reward programs. These can provide your existing buyers with added reason to spend money with you, rather than your competitors. Whether it's a short-term solution, a sweepstakes option, a personal goal system, or a monthly vs. yearly goal, there are proven methods to help keep your audience coming back.

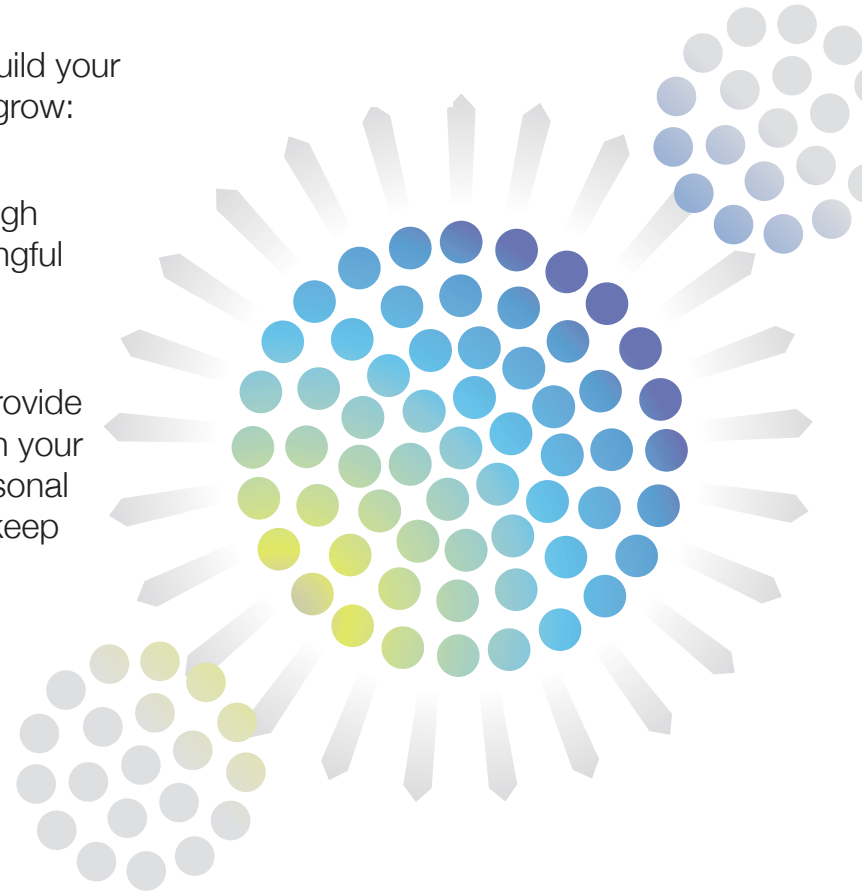
Target your middle 60%: They could stimulate sales growth and provide a strong foundation for long term success.

Key Takeaways:

- Your middle 60% customers, or undiscovered customers are ripe with potential for account penetration
- Every program targeting this group needs a marketing and communications plan
- Coupled with an incentive program, marketing and communications can lead to increased account penetration
- Success from these kinds of programs is just around the corner if orchestrated correctly

Sources

<http://theirf.org/research/matt-harris-incentive-program-design-the-middle-60/174/>





About HMI Performance Incentives



Group
Travel



Sales
Incentives



Customer
Loyalty



Engagement
& Enablement



Channel
Incentives



Global
Solutions

Founded in 1980 in Cambridge, MA, HMI Performance Incentives has grown to become a global leader in designing and operating effective incentive solutions. At HMI, we measure our success by the outcome of our clients' satisfaction. Our programs are geared to help you boost your profit margin, increase customer or employee engagement and capture new market share, and with more than 35 years of experience in the performance improvement industry, we know what it takes to deliver results.

At HMI, we study your business to understand its go-to market strategies and opportunities for growth. With a track record of success in dozens of industries, we take what we learn and recommend a strategy that will address your specific performance needs. From timelines and projected budgets to participation reports and customer feedback, HMI provides ongoing analysis to ensure of your performance incentive solution is hitting its mark.

When you enlist HMI to provide you with an incentive solution, we understand you are entrusting us with your most valued resource: your employees and/or customers. We value that trust and hold ourselves responsible for treating them as our own. That's the HMI promise.

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