

Top Market Strategy: Applying the 80/20 Rule

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The “80/20 Rule” summarizes a remarkable universal law that has stood the test of time. It was discovered by a nineteenth-century Italian engineer, Vilfredo Pareto, to demonstrate an equilibrium point—namely, that equilibrium is reached when the top 20 percent of the inputs generate 80 percent of the outputs, balanced by the bottom 80 percent of inputs generating 20 percent of the outputs.

While the rule has broad application, it has gained the most traction in sales. Here the 80/20 Rule relates directly customers to revenue. Generally, it has been found that the top 20 percent of almost any company’s customers are responsible for about 80 percent of a company’s revenue.

In *Top Market Strategy*, Dr. Kruger explores the fundamentals of the 80/20 Rule, then takes it a step further, offering a research-based example that demonstrates how to apply the rule to profit from customers.

In Parts I and II of the book, the author reviews marketing basics and offers an overview of the 80/20 Rule with references to some of the ways it has been applied over time. Of interest are several applications that are not related to sales: for example, IBM’s discovery, in 1964, that “the top 20 percent of software features perform 80 percent of the operations.”

Kruger lays the groundwork for using the 80/20 Rule with regard to customer profitability in Part III. She discusses profitability segmentation, compares the profits generated by customers in the top and bottom market segments, and defines a top market strategy.

Part IV, the final part, is the most detailed. This section walks the reader through a specific case developed around a fictitious product. Included is a roadmap for interviewing customers and a process for creating a customer survey. Kruger then provides a method for surveying customers and analyzing responses, followed by defining the profitability segments; distinguishing, evaluating, and targeting the top market segment; and creating research-driven marketing strategies for attracting and retaining highly profitable customers.

The author includes appendices which provide detailed results and analysis of the customer survey, as well as instructions for how to segment customers by profitability and how to profile a target market. Kruger also includes an Excel data worksheet as a tool to facilitate analysis.

While numerous books reference the use of the 80/20 Rule in sales, *Top Market Strategy* stands out because it is focused specifically and exclusively on the rule’s application as a profit-generating tool. Kruger includes both theoretical background and a practical example. By studying her example and using the data worksheet provided, a marketing professional should be able to adapt and apply the material in *Top Market Strategy* to a real-life customer base, and, according to Kruger, quadruple its profit.

BARRY SILVERSTEIN (August 10, 2011)

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