



A RESEARCH PAPER ON: A STUDY ON THE SIGNIFICANCE OF CORE CUSTOMERS FOR A BUSINESS WITH REFERENCE TO THE PARETO'S PRINCIPLE

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ABSTRACT

Purpose: The topic has been chosen keeping in mind its uniqueness and how a small portion of the consumer base forms the major part of the revenue earned by a particular firm or company. The purpose of this research would be to find out in detail the concept of 'core customers' and how the companies treat its core customers in comparison to its other customers.

Research Implications: The portion or group of customers contributing the major part of a company's revenues are called the 'core customers'. These customers form the central base of any marketing or R&D process. One of the most important objectives of a company is to retain these core customers because losing its core customers will hurt a company not only in terms of its revenue, but also in form of its market grip. Loss of core customers can turn out to be a very major negative publicity which will hamper its public image.

Originality/Value: The research done for this paper is original and unique in the sense that it applies the Pareto's Principle to revenues of a firm and discusses the implications and the reaction it has on the marketing landscape of the economy as a whole.

Keywords: Core Customers, Pareto's Principle, Retention of Core Customers, Customer Loyalty, Segmentation, Importance of core customers to the organisation

INTRODUCTION

Core customers are the customers which are the most brand loyal and are most likely to purchase a company's product. These core customers are the customers which buy the product of the company in a quantity which is enough for a company to earn a profit. In other words, the core customers are the fans of a particular company whose products they buy not only for its features and quality, but also some times out of loyalty. Core customers though are a minor part of the total customer base of a company, but are the main 'fan base' and the target area of the firm.

For comparison purposes, the Pareto Principle would be used in this study.

The Pareto Principle states that 80% of the effect comes from 20% of the causes. Similarly, in marketing facets, it is said that 80% of a company's revenues come from 20% of its customers. This 20% of the customers denoting the core customers. This can be further explained with the use of an example from real life. Considering Apple, when the core customers of Apple buy an iPhone, they also buy a MacBook or an iMac because of the ecosystem that Apple has created and the core and the most loyal fans tend to be attracted towards this ecosystem and hence, buy additional products of Apple as well. The major part of Apple's revenue is generated from these type of customers.

These customers form a small part of the entire customer base but contribute the most to the revenue of Apple i.e. the company.

Hence, though the core customers are lesser in number, they buy more quantity of the products of the company.

OBJECTIVES OF THE STUDY

The main objectives of this particular study are as follows

- To highlight the importance of the core customers for the business firm. Core customers are the most important customers for a business concern as most of their revenue comes from the core customers. As the name suggests, the core customers the central focus of the customer circle of a business. Retention of the core customers, their satisfaction and continued loyalty is one of the most important objectives of a company. This is because, if a core customer moves on from a company and its products, it is a huge loss for the said firm and their reactivation is a very difficult task.
- To study the Pareto's Principle's relevance with respect to core customers. As Vilfredo Pareto explained, that 80% of the effects come from 20% of the causes, this notion can also be applied to marketing. In marketing terms when it comes to core customers, 80% of the revenue comes from 20% of the customers, similarly, 80% of the customer complaints come from 20% of the customers. This 20% of the consumers constitute the core customers.

REVIEW OF LITERATURE

- **Alan J Dubinsky and Richard W Hansen (1982)** in their publication 'Improving Marketing Productivity: The 80:20 principle revisited' explain this principle in detail including its application in marketing sense. It also points out that if this 80-20 situation isn't dealt with, it can lead to decreased marketing productivity and also decreased and restricted profits. The authors state that this concept is much more related to long term consequences than the short term consequences.
- **Christina Oberg (2011)** in her study 'The Core Customer Concept' establishes in detail the concept of core customers and their significance. The study of the author explains how the operations of the organisation are developed and revolve around a single customer or around very few customers. Hence, it is the customers who dictate the terms regarding the product and the R&D decisions. The importance of the concept of core customers to the company have been comprehensively highlighted in the aforementioned study.
- **Morrison Stones (2013)** in his research 'Lost Touch with Core Customers' explains the effects and the consequences which a company might have to face if it ever loses touch with its core customers. The study shows that if a company loses touch with its core customers, it has an ill-effect not only on its public image, but also on its product development and research operations. If a product isn't produced in coordination with its core customers, it has a very positive chance of failing in the market.
- **Perry Marshall (2013)** in his book '80/20 Sales and Marketing: The Definitive Guide to Working Less and Making More' has explained the 80-20 principle from a very different dimension. The author explains in one of the chapters one very important property of the concept. It says that if a company completely ignores 80% of its customers, the 80-20 rule can still apply. The author lays down that if the company takes note and cares for only its every 5th customer, then also it can work well and still earn a very major part of its revenue. Though this property is very simple to understand, but the author does a very significant job in pointing it out.

SIGNIFICANCE AND IMPORTANCE OF THE STUDY

This study has been conducted on the said topic because of it being both very logical and obvious at the same time. It becomes logical when thought deeply. Every company has certain customers who though are limited in number but are the most regular and contribute a major chunk to the sales and revenue of the company. The topic is significant as it provides a very new dimension to how the marketing operations of a company work using numbers in a wordplay.

This study will be significant to the research scholars, academicians, students and the marketing researchers who would like to research on the topic or any similar topic in the future. This study aims to contribute to any future studies on similar lines.

LIMITATION OF THE STUDY

This study is based purely on secondary data and no primary data. This may turn out to be a limitation of the study. The previous works of authors was used to carry out this study.

FINDINGS AND SUGGESTIONS

Some major findings and suggestions found over the course of this study were as follows-

- The 80-20 concept does not apply to the FMCG sector as their customers and their buying habits are mostly equally distributed. The products sold by the FMCG companies are not technical or complex in nature for only a small group of people to buy the majority portion of them. Therefore, it was one of the major findings of this study that FMCG companies do not fall under the ambit of this concept.
- One suggestion this study would like to present is that the companies should not just develop and prepare their products keeping in mind just the 20% of the customers contributing 80% of the revenue. After all, the remaining customers constitute 80% of the customer populous and if the non-core customers develop a negative opinion about a company and its products, it might affect the buying habits and volumes of even the core customers.
- Another finding of the study is that the core customers provide only the “optimal” or required amount of profit for survival. They do not provide enough for the company to get “super normal profits” or the profits for a company to prosper. The companies must keep this aspect in mind when preparing a product.
- One suggestion this study would like to put forth is that, though the core customers are loyal, but their loyalties don't take long to be shifted. Thus, these core customers should not be taken for granted that they would stay with the company no matter what. Hence, the company must always strive to satisfy these core customers without taking them for granted.

CONCLUSION

In conclusion, the author would like to say that although this concept is very important in marketing spaces and for R&D purposes, but it should not be the only thing on the producer's mind while preparing the product. Certain other factors, including the current market forces, market conditions, the competition in the market, the current trends also must be kept in mind while taking any major decision regarding a product and its marketing.

This concept also enables the company to define its relationship with its customers by analysing through their buying trends whether they are core or non-core customers. This identification is very important for the company in the long run.

One object of the companies apart from retaining the core customers must be to convert the non-core customers into core customers. This is the most profitable trade for the company, but is even more difficult than the reactivation of the lost customers. As, the non-core customers of one company might be core customers of another company, and persuading a core customer of another company to leave that company to become a core customer of the company in question is a very tough task and can only be done through very smart networking and marketing.

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