WHY BRANDS AND COMPANIES FAIL – THE PARETO PRINCIPLE

"It is fine to celebrate success, but it is more important to heed the lessons of failure". - Bill Gates

A dear friend, and former CMO, sent me a note, following my musing on Sears' failure, regarding a fruitful interview conducted by WBEZ with a University of Chicago professor as to causes behind that failure. I listened to it and felt it was enlightening. There were a few things about the Sears failure that was understandably different from that of Treasure Foods and Dominick's. As it may be said, success has many mothers, but failure has but one. I believe, like in most things, that 20% of factors account for 80% of the outcomes. This is the Pareto Principle, also known as the "80/20 rule" and the "law of the vital few".

The late Joseph Juran, a management consultant who revolutionized Japanese manufacturing and management, suggested and named the principle after Vilfredo Pareto, an Italian economist. Pareto noted that 80% of the land in Italy was owned by 20% of the population. We know it in business as "80% of the sales are usually generated by 20% of customers". (Then why do marketers try and target "everyone"? This is a question for another time.) During my time at Coca-Cola USA more than 80% of our business came from the top 20-bottlers. While it is not exactly the same thing, the 80/20 relationship continues to pop-up. Perhaps, it is because I'm conditioned to look and, therefore, find it.

There are business and marketing mistakes, which shouldn't be made but are, that trace to ignorance, lack of discipline, poor judgement, etc. These may be attributed to our human failings. But fighting in the face of sound marketing principles and practices contribute, in my 45-years of experience managing and studying brands and companies, to the vast majority of failures. When I think of the Pareto principle I believe that 80% or more of the failures may be traced to ignoring these "vital few" principles and practices:

- Cutting or eliminating investment in enhancing or maintaining the brand/business (often a result of pursuing the "next great hype" or boosting short-term profits) below the critical mass needed to fuel continued success;
- Overestimating the brand's and/or company's capabilities while underestimating competition (hubris, which breeds "active inertia" and is reinforced by "group think") that leaves one vulnerable to inroads by the competition;
- Not creating or maintaining relevant, meaningful differentiation to create a favorable customer perception of value versus competition in our veritable "age of sameness and abundance";
- Failure to envision and evolve to a changing market, latent customer needs and emerging competition (which is not just short-sighted but likely a function of hubris breeding active inertia and resulting in a loss of differentiation);
- Attempting to be all things to all people (i.e., prospective customers), which dilutes or obfuscates differentiation even where it exists; and

- Alienating or abandoning one’s customer base through radical changes, often in an attempt to move from one customer segment to a new one in reaction to a decline in growth rates and/or sales.

While I do have great empathy for the hard-working employees of these organizations who have lost their jobs due to management ineptitude, I have little for the failed companies or brands. I do believe, when a business or brand is no longer relevant it does not deserve our loyalty, no less our business. So, let’s learn from failure so we may avoid it and build health brands and organizations.