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## I. PROFILING BY John M. Coe VP Business Development & Marketing Strategy

### **Overview:**

This white paper on Profiling is the first in a three part series *Profiling, Targeting & Segmentation*. Taken together they lay out a three step process that should be completed by all marketers before developing a marketing campaign.

### **Executive Summary:**

In marketing, as in many other disciplines, the first question is, “where do I start?” Frequently, marketers start where their strengths lie or feel comfortable. Database marketers start with data, creative types start with the creative, etc. Frankly, that’s why so much marketing misses the mark, and does not produce the desired results. Years ago, I was watching Ron O’Brien (a two-time NCAA diving champion and coach of many of our Olympic divers including Greg Louganis) learn a new dive. After his many attempts to “hit” a 3 ½ forward somersault with 2 twists, I asked, “how do you learn a new dive?” His answer was both insightful and appropriate, and one that I’ve taken to heart – Ron said, “If I put my head in the right position, the body soon follows.”

When we develop marketing campaigns, we should take Ron’s advice. But what is our head position? My advice to marketers is that profiling and targeting combined with a segmentation process is it, and if we get it right, our marketing “body” will soon follow and “hit” the mark.

The reason I believe this process is so important is that in B2B, much marketing planning and execution is done with little solid information or just anecdotal input. It’s not uncommon to have a company “identify” a target market and launch a program based on only several sales successes. Everyone gets excited and charges off to call on more of these “kinds of companies” without further analyzing the overall market to see if, in fact, that is a segment worthy enough to target. As we move from sales-driven to more data-driven strategies, there needs to be a more disciplined method of targeting and segmentation to achieve the best results. Overall, it’s a three-step process.

- Profiling – Where have you been?
- Targeting – Where are you going?
- Segmentation – Who’s going to get you there?

This white paper deals only with profiling which is the critical first step of the three to arrive at “head position” to achieve maximum results. Companies that have not yet undertaken this three-step process may well find that it’s a difficult, but a very rewarding effort in terms of results.



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### **Profiling: Where Are You Now?**

The first step, profiling, not only confirms what you know about your market, but also adds insight regarding where you have had success in the past, in a more quantitative manner. Once the profiling analysis has been completed, it can be used as one of the inputs to target future marketing efforts and perform market segmentation – the next two steps.

### **Profiling: The Process**

Profiling should be a basic marketing process that is performed routinely by all companies. Unfortunately, my estimate is that fewer than 20 percent of B2B firms have actually profiled their customer and/or prospect base. In fact, recently I was consulting with a very successful software company on its marketing programs, and found that this twenty-year-old high-tech company with more than sixteen thousand sales transactions had never profiled its customer base. Here's how the marketing communications manager answered the "where do you sell?" question: "We sell large Fortune 500 companies and government agencies." That was it; no other detail on the makeup of the market was forthcoming. Management didn't even know how many of the sales came from the same company, since the sales records were by location and were not tied to a corporation or parent company. As a result, the marketing objective was to sell more "large deals", but nobody knew where these "deals" were, as no real market analysis and profile had been developed. Therefore this high-tech company was flying blind, except to direct the sales organization to "large companies. Needless to say, that company is now engaged in a detailed profiling project to identify the best industry segments.

### **Customers First:**

So, where do you start the profiling process? First, the customers need to be profiled for the obvious reason that past success is almost always a predictor of future success when selling the same product and/or service. For new products, a separate targeting process is appropriate. So then the question arises – on what do we base the profile? Two demographic pillars support the basic profile - industry type and size of company.

While there are other profiling approaches (e.g., sales revenue), this basic demographic profiling is a first step. These two data descriptions are also the "data bridges" to outside databases to data compilers. We need these data bridges to find companies that match the profile in these compiled databases. It doesn't do any good to develop a great customer profile, and then find that no other data source has this information.

### **Industry Type: SIC vs. NAICS**

The standard definition of industry type has been the Standard Industrial Classification or SIC for the past seventy years. In 2000 this definition became a legacy system, as the North American Industrial Classification System, or NAICS code was introduced. The newer NAICS coding has several major advantages over the old SIC coding:

- It includes the new technology companies that were not specified in the old SIC codes. For example, Cisco did not have a specific SIC code that described their company's products, and was assigned the famous 99 NEC or Not Elsewhere Classified, number.



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- The new coding system is NAFTA-consistent and aligns with both Canadian and Mexican coding systems.

There are other improvements and revisions to this new system of classifying companies. To learn more, visit [www.census.gov/eped/www/naics.html](http://www.census.gov/eped/www/naics.html) Note that even though the government has officially changed to the new NAICS coding, most of the industry has not and many B2B databases still use the old SIC code. However, if you are now considering which coding system to use, my recommendation is that the newer NAICS code would be better, even though the transition in the industry has not been uniform. The transition to NAICS is available from data compiling firms, as they have built “data bridges” from the old SIC codes to NAICS.

Once you understand the industry coding system and what it provides, several other issues need attention before you proceed. First, how deep into the industry description should you go to define the company type? In the old SIC system, a four-digit level fit most situations, which equates to the six-digit level under the new NAICS codes.

In addition, a customer base that is composed of large companies requires further consideration, since they will most likely have numerous NAICS codes to reflect multiple operations and product lines. Just think of how many NAICS codes IBM or DuPont (soon to be merged with Dow and split into three succeeding companies) have that describe their business units. On this issue, the site or location of the customer may be a tip-off as to what code should be assigned – but not always. Because this is such an important piece of data, in some cases a manual check may have to be made to verify the specific code assigned to the customer or prospect.

Incorrect coding will lead to faulty profile analysis. The good news is that companies’ NAICS codes rarely changes over time once you’ve accurately recorded the code, Determining the right NAICS code, and assigning it may be a daunting challenge if the customer base numbers in the thousands, but it is worth the effort, as this basic demographic data will be used over and over again to set marketing strategy and sales direction.

### **Company Size: Employees vs. Revenue**

The next key issue is how to define the size of the companies to be profiled. To most people, this means sales revenue. While this definition may be the most desired, it poses several problems for accurate profiling. Here’s why. Most companies in the U.S. are private. In fact, only about 10,000 of the more than 12-15 million companies in the United States are public, and are required to file factual information on their sales revenue that the public can access. This means that at least 99 percent of all U.S. companies keep their sales figures confidential.

Don’t get me wrong: revenue numbers for private companies exist in compiled databases, but they are often estimates, modeled on some other factor, such as number of employees at the company combine with a correlation of employee size to revenue within the industry.



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Therefore, to determine the size of the company, the number of employees may be a better and more obtainable gauge. This information is usually not considered secret and is easily available. In public databases, it is often reported as a range of employee sizes.

When developing your own information, it would thus be satisfactory to also use ranges, as exact employee size is not as important as the general size of the company. The standard employee size range breakdown is as follows:

1-4 employees	100 - 249 employees
5-9 employees	250 - 999 employees
10-24 employees	1,000 – 2,499 employees
25-49 employees	2,500 – 9,999 employees
50-99 employees	10,000+ employees

Unlike the NAICS code, the size of a company changes from year to year, and therefore becomes a data element that needs periodic updating, particular if you are selling small to medium sized businesses. I prefer using the employee count for the company size criterion, since this question will most likely be answered fairly accurately when an employee of the organization is asked.

Another choice on size of company should be made at the outset of profiling process. While the preceding employee size categories are standard in the industry, it may be wise to combine several categories, so that when a market matrix is created there are fewer cells in the overall grid. Here's a typical example of three segments:

- Small 1-49
- Medium 49-999
- Large companies 1,000+.

The specific size definitions depend on the marketing situation you face and how granular you want this definition to be. By the way, the government's definition of "small" companies is 500 or fewer employees, so be careful in throwing around these terms, as a "small company" definition for one person may not mean the same thing to another individual. In fact, one of the most important issues in B2B marketing is to have common definitions of terms.

### **How to Profile: Standard vs. Penetration Profiling**

The standard profiling process relies on matching your customer or prospect record to public information from data compilers and enhancing your record with the selected information (e.g. NAICS code and company size). That may sound easy but it's not! The problems lie primarily in matching your customer record with the corollary company record in the public database. In many cases, the way in which the customer or prospect record was inputted may not match the way in which the same company record is listed in the outside database.



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Let's use DuPont as an example. There are multiple ways that DuPont could be listed, and here are a few:

- DuPont
- DuPont & Company
- DuPont de Nemours
- The DuPont Company
- DuPont (fill in the name of the division and all the variations)
- E.I. duPont de Nemours and Company (the official name)

If the data entry of the name differs from the spelling used in the outside database, the software matching process may not find the match due to this small but significant difference. Several years ago I got a call from someone; who had attended one of my seminars. I used the DuPont example in the seminar sessions, and her company, sells to DuPont. So, when she went back to work, she looked DuPont up on their customer database. There were 73 listings for DuPont -- an obvious problem if they wanted to see what their total sales were to this customer. Among the 73 listings were several duplicates of the same location, in addition to multiple divisions of DuPont.

This does not even take into account the mailing address for a company, which can have its own set of variations in addition to the "official" address of the location. Large companies can have as many as three legitimate addresses. There is the "front door" address (usually the one that the public databases record); the billing address, which may be a PO Box; and even the shipping address, which could be the receiving dock. The last two addresses are frequently found on the customer records, particularly if they come from accounting. As is easily seen, the possible variations are multiple and can potentially cause the computer-matching software program to conclude that the two records are different, even though they are actually the same company and location.

Because of this problem, match rates found between customer records and outside databases are usually only in the 60-75% range, even though the company is in the outside public database. This difficulty is known, but only a few computer service bureaus have written special algorithms in an attempt to solve the non-matching problem. These programs work better than consumer matching software does, but still not well enough to get much above the 80-85% matching rate on the first pass.

Now that you're aware of the problem, what do you do? First of all, insure that the address of the customers in your database is postal-certified by running them through CASS certification and, of course, the National Change of Address (NCOA) process. Then, assuming that you are using an outside computer service bureau or database provider to perform the matching and enhancement process, be aware of these issues and inquire as to their unique processes and capabilities to deal with the matching problem. When the matched and enhanced list is returned, the second step may be to manually enhance the non-matched records. This may require a look-up process, as it is important to have the NAICS code and company size definition on as many records as possible, and certainly for all the large customers, to properly complete the profiling process.



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**An Example of a Standard Profile:**

Now, let’s see how this type of analysis might be shown once completed. The following table shows a real example of an attendee profile that was done for a seminar firm who held sales training courses. This firm had initially rented lists to fill the seminars based on response criteria of individuals who had attended a seminar similar in nature, and by the geographic area where the seminars were to be held, in this case Ohio, Indiana and Michigan.

These response lists had no industry selection criteria – which is normal. After a number of seminars they wanted to improve their targeting and list selection criteria by analyzing the actual attendance by industry, as they were expanding the seminars to other states. It was decided that the size of the firm was not key to their analysis.

The first step was to match the attendee list with a compiled database, and enhance it with the SIC code (their master database was in the legacy SIC code, and therefore we kept with this as the coding system). The match rate of the entire file was only 67%, which was satisfactory for this level of analysis. The first chart ranks the top 20 industries by 4-digit SIC clusters based on the total number of attendees to their seminars.

4-Digit SIC	4-digit SIC Code Description	Number of Attendees	Ranking of 4 digit SIC Clusters
2752	Commercial printing	181	1
3089	Plastics products, nec	156	2
1731	Electrical contractors	151	3
5044	Office Equipment (Wholesale)	140	4
6022	Commerical banks	139	5
7311	Advertising agencies	130	6
7011	Hotel and motels	125	7
2711	Newspapers	121	8
8721	Accounting firms	120	9
2522	Office furniture	118	10
7361	Employment agencies	117	11
7313	Radio and TV	115	12
4813	Telephone communications	113	13
2834	Pharmaceutical preparations	112	14
1711	Plumbing and heating contractors	111	15
6211	Security brokers	110	16
6531	Real estate agents	85	17
7331	Direct mail services	72	18
8021	Dentists	55	19
2761	Business forms	41	20

This first result, by attendee count, clearly uncovered four-digit SIC code clusters. The firm’s initial reaction was to rent lists based on this analysis, and select all the companies in each of these 4-digit SIC codes in the states where their new seminars were planned. This would have been in addition to their continuing to rent high performing response lists. While this might have improved their response and attendee conversion rate, this is not where we stopped, since by only looking at the total number of attendees by SIC is a one-dimensional analysis.



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**Penetration Analysis – the more insightful picture**

The first level analysis was based on the number of seminar attendees present the four-digit SIC description. As a comparison of one industry type vs. another, it is a solid approach. If the total number of customers is relatively small, and there are less than 10 per cell, then the analysis may well stop here. On the other hand, having many customers in one industry may not provide the most accurate or insightful picture.

The next step, or penetration analysis, compares the industry counts against the total market size by the same SIC cell definition, and determines a “share” of the total market, which will be a more accurate measure of market responsiveness. The problem for most B2B marketers is that the total number of customers is frequently not large enough to calculate reasonable percentages (remember the old rule of significant numbers). If there are enough customers in each cell then a penetration analysis will provide a much clearer picture of where market success has been greatest.

Here is the same statistics displayed by calculation of a penetration analysis. You will see how the ranking of attendee SIC clusters change.

New Rank	4-Digit SIC	4-digit SIC Code Description	Old Rank	Attendees	Total Bus in Market	%Pen. of Market
1	2522	Office furniture	10	118	279	42.29
2	2834	Pharmaceutical preparations	14	112	290	38.62
3	2761	Business forms	20	41	149	27.52
4	7313	Radio and TV	12	115	468	24.57
5	5044	Office equipment (wholesale)	4	140	1039	13.47
6	7331	Direct mail services	18	72	720	10.00
7	2711	Newspapers	8	121	1345	8.99
8	3089	Plastics products	2	156	2657	5.87
9	7311	Advertising agencies	6	130	2575	5.05
10	2752	Commercial printing	1	181	3785	4.78
11	6022	Commercial banks	5	139	3256	4.27
12	4813	Telephone communications	13	113	3050	3.70
13	7361	Employment agencies	11	117	3417	3.42
14	6211	Security brokers	16	110	3605	3.05
15	7011	Hotels and motels	7	125	6619	1.89
16	1731	Electrical contractors	3	151	9625	1.57
17	8721	Accounting firms	9	120	9351	1.28
18	1711	Plumbing, heating	15	111	14,568	0.76
19	8021	Dentists	19	55	10,533	0.52
20	6531	Real estate agents	17	85	22,464	0.38

As can be clearly seen, there are different rankings based on the penetration analysis. As an example, only one out of the top five “old” rankings remained in the top five. Four new SIC codes rose to the top as the most “penetrated” clusters.

As a penetration analysis is developed, a key issue is defining the scope of the market. As an example, this seminar company chose to compare the attendees in the three states to number of companies in this geographic area where the seminars were given. Any good database of U.S. companies can easily be sliced by geography, making the penetration analysis more relevant to the actual customer acquisition effort.

If the base number for this analysis is too large (such as comparing it to the total US), then the analysis will not have statistical reliability, as the percentages will be too small.



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It's your market situation and customer/prospect count that will drive the decision as to whether to try a penetration analysis or not.

In addition, don't forget that this analysis can form the basis of other calculations. The most common of these is sales revenue by industry. Once the analysis is done and most, if not all companies are placed in their respective industry cells, it's a simple matter to then add up the total sales volume to then obtain another insight into which industry is has the highest revenue, margin, etc.

#### **Final thoughts on profiling:**

Most of this description has dealt with customers, and rightly so, as customers have displayed a measurable behavior – they bought! At times the profiling for inquiries or leads might be also prove to be helpful, as typically there are far more leads than customers, resulting in more reliable statistics. In addition, inquiries are fresher and might be more reflective of current market interest plus provide additional insight than a customer base that has been achieved over a long period of time.

One caveat to consider is that many companies have directed sales activity to target specific markets, and like other things in life, this can prove to be a self-fulfilling prophecy. Naturally you should see success where these marketing efforts are concentrated, and this will be reflected in the number of customers in each industry cell.

Therefore, the analysis is not solely a reflection of customer interest in your product or service, but rather a result of dedicated sales effort. Just be aware of this influence so that your marketing insights and conclusions from this process are not “uniformed”.

#### **To Sum up:**

Accurate profiling almost always uncovers insights into your market that were not obvious. It moves you from “I think we know” to “I know” our best markets and sales opportunities.

#### **John M. Coe**

John has partnered with Direct Hit Marketing and responsible for adding new trade show clients and thought leadership. John is also Co-Founder and Partner of B2BMarketing.com. His background includes experience in both sales and marketing. On the sales side, John was a field salesman, national sales manager and executive in charge of both sales and marketing for three major B2B firms. On the marketing side, he was president of a B2B direct marketing agency for 10 years, was National Campaign Manager at IBM, Sr. VP of B2B at Rapp Collins Worldwide and President of Protocol B2B. John is also the author of *The Fundamentals of Business-to-Business Sales & Marketing*, published by McGraw-Hill. John's next book co-authored with Steve Juedes, President of DHM is titled *Data-Driven Trade Show Marketing & Sales for Organizers and Exhibitors* is due for publication in early 2016. He can be reached at [johnc@directhitmarketing.com](mailto:johnc@directhitmarketing.com) or by phone at 602-402-6588.