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FOR DTC FOUNDERS AND OPERATORS · A FIELD GUIDE

THE NEXT CATEGORY

What to sell the customers you already have, **and how to tell if it's working.**

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September 2026 · 14 chapters · About 70 minutes

A note before you start

Every brand with a hit product reaches the same meeting. New customers are getting expensive, the base is loyal, and someone puts up a slide: customers who buy from two categories are worth three times as much. So let's give them a second category.

1 in 4	10–35%
moves into an adjacent business succeeds, by Bain & Company's own count, and its estimates run as low as one in five	of cross-buying customers were unprofitable across five firms, and they accounted for 39% to 88% of each firm's losses from customers (Shah and colleagues, 2012)

Those two numbers frame the guide. The first says the next category is harder than it looks from inside the meeting: most moves beyond the core fail, even when chosen by people paid to choose well. The second says the slide is missing a column. Some cross-buyers are your best customers and some are your most expensive: they buy on discount, return what they buy and call support about it. Push them into a third category and you lose more.

None of this means don't expand. It means expand in the right order: first the headroom left in the core, then the nearest step out, launched to the customers who already trust you, and measured against a holdout instead of a slide.

> **The best next category is often more of the first one. The second best is the one your customers would guess you'd make.**

It builds on The Second Order (the second purchase, cohorts, VIPs) and The First Offer (bundles, basket analysis) without repeating them. This guide is about the decision above both: which category to add, whether to add one at all, and how to tell afterward whether it helped.

How to read it

Start with The Next-Category Audit. Your lowest checks name the chapters to read first. Or follow a path:

- **Founder with a launch on the table:** Headroom Before Horizon, How Far Is One Step?, Will They Believe You Make It?, Launch to the Base First.
- **Already multi-category:** The 3x Customer, Cross-Buyers Who Cost You, Test the Nudge.
- **Lifecycle or CRM lead:** Test the Nudge, Products per Customer Is Not a Goal, Templates.
- **Analyst:** part three, then For Your Analyst.

Four tools run in the page. Nothing you type leaves your browser.

What's proven and what isn't

- **Filed:** SEC filings and regulator orders, with the filing and date.
- **Published:** peer-reviewed research and books by the researchers themselves.
- **Reported:** what a named company, consultancy or outlet published. Much of the adjacency data comes from Bain & Company, which sells strategy advice and hasn't published its methods, so the text says so each time.
- **Derived:** my arithmetic, with the inputs shown.

Examples that open with Say or Picture use made-up round numbers. Every source is listed in Appendix C.

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FRONT

TEN POSITIONS

What this guide argues, and what would prove each claim wrong.

A position says what would prove it wrong. Test each on your own customers.

01 **Most brands have more money left in their customers' category spend than a new category brings in its first year.**

Wrong if your hero product already takes most of what your typical customer spends in its category.
Headroom Before Horizon

02 **Your rank in the customer's head predicts your share of their spend better than their satisfaction does.**

Wrong if customers who rank you second give you as much of their spend as customers who rank you first.
Headroom Before Horizon

03 **The evidence that growth comes from the next step out is weaker than it sounds, because it was drawn from winners.**

Wrong if a study of every expansion, failures included, found distance from the core didn't matter.
The Adjacency Record

04 **Distance from the core can be counted: same customer, same occasion, same supply chain, same proof.**

Wrong if your moves that shared none of the four did as well as the ones that shared all four.
How Far Is One Step?

05 **An extension sells when customers can see why you'd be good at it, not just because they like you.**

Wrong if the extension your customers rate as the poorest fit outsells the one they rate as the best.
Will They Believe You Make It?

06 **“Multi-category customers are worth 3x” is mostly selection: heavy buyers buy more categories.**

Wrong if customers who went on to buy a second category weren’t already spending more before they did.

The 3x Customer

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07 **Some cross-buyers lose money, and pushing them into more categories loses more.**

Wrong if your most discounted, most returning cross-buyers are profitable after returns, shipping and service.

Cross-Buyers Who Cost You

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08 **Products per customer is a result. Make it a target and people will manufacture it.**

Wrong if a team paid on categories per customer never pushed a product the customer didn’t need.

Products per Customer Is Not a Goal

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09 **A cross-category nudge without a holdout is a guess with a revenue number attached.**

Wrong if a holdout shows your cross-sell flow caused nearly all the purchases its dashboard credits it with.

Test the Nudge

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10 **Launch to the base first and judge the launch on the second order, not the first.**

Wrong if the first-order sell-through of your past launches predicted which ones were still selling a year later.

Launch to the Base First

FRONT

THE NEXT STEP ON ONE PAGE

Four rings around the core. Each ring out shares less with what you already do well, and asks for more proof before you commit.

Picture a coffee brand whose hero is a whole-bean subscription. Here's what each ring looks like for it, and what should be true before it moves there.

RING	WHAT'S SHARED WITH THE CORE	FOR THE COFFEE BRAND	MOVE WHEN	HOW IT GOES WRONG
0. The core	Everything	More of the hero: sizes, blends, cadence, a better second order	Always first, above all while share of wallet is under about half	Nobody measures share of wallet, so the headroom is invisible
1. One step	Customer, occasion and proof; maybe not supply	Filters, a grinder, cold-brew concentrate	The core's share of wallet is high, and customers already buy this somewhere	Launched as a discount to the whole list, so it attracts the wrong buyers
2. Two steps	Customer, and one of occasion, supply or proof	Tea, mugs, a branded kettle	Ring 1 is working and a partner can't do it better	Customers can't see why you'd be good at it, so they buy once
3. A new business	Little beyond the name	Energy drinks, apparel, a café	Rarely: when the core is capped and	It borrows the brand, the cash and the team's

RING	WHAT'S SHARED WITH THE CORE	FOR THE COFFEE BRAND	MOVE WHEN	HOW IT GOES WRONG
			the move has its own economics	attention, and dilutes all three

Rings are about distance, not product type. Chapter 4 turns them into a score.

> **Every ring out adds one more thing that has to go right the first time.**

Do this

- **Write your last three launches and your next three ideas** into the rings. If the ideas cluster in rings 2 and 3 while ring 0 has no measured share of wallet, start with chapter 2.

START HERE · CHAPTER 1

THE NEXT-CATEGORY AUDIT

Twelve checks on whether you're ready to add a category, and whether the ones you've added are paying. About forty-five minutes with your order data, your last survey and your flows.

The audit isn't about how many categories you sell. It asks whether you know how much of your customers' spending you already have, whether you chose your last expansion by distance or excitement, and whether your multi-category numbers are true.

Open your order data, your customer survey results if you have any, your email and SMS flows, and the plan for your next launch. Score each check 0 to 2: 0 if it failed or nobody can answer it, 1 if partly true, 2 if clean. A slide that says "multi-category customers are worth 3x" doesn't count as an answer to any of these.

> **A category you can't measure is a category you can't defend in the next budget meeting.**

The twelve checks

01 **You know the hero's share of wallet · 5 min**

Look at: Any estimate of what your customers spend in your category in total, with you and with everyone else.
Good: A number from a survey of at least a few hundred customers in the last year, split by customer segment.
Cost if wrong: You launch a new category while most of the money in the old one goes to competitors.
Read next: Headroom Before Horizon

02 **You know your rank · 3 min**

Look at: The same survey.
Good: It asks which brands customers buy in the category and how they'd rank them, and you know what share of customers rank you first.
Cost if wrong: You measure satisfaction, which predicts share of spend poorly, and miss the number that does.
Read next: Headroom Before Horizon

03 **The core is still growing inside the base · 4 min**

Look at: Revenue per active customer from the hero product, this year against last.
Good: Flat or rising, and you can explain any fall.
Cost if wrong: The new category hides a core that's quietly shrinking, the pattern the adjacency research warns about most.
Read next: The Adjacency Record

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04 **Candidates are scored, not pitched · 4 min**

Look at: How the last launch was chosen.
Good: Every candidate was scored on shared customer, occasion, supply chain and proof, and the scores are written down.
Cost if wrong: The loudest idea wins, and it's usually the most exciting one, which is usually the furthest away.
Read next: How Far Is One Step?

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05 **Fit was tested with customers · 3 min**

Look at: Research done before the last launch.
Good: Customers were asked whether the product fit the brand and whether you'd be good at making it, before anything was built.
Cost if wrong: You learn about fit from the sell-through, after the inventory is paid for.
Read next: Will They Believe You Make It?

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06 **Multi-category value is reported with a before · 4 min**

Look at: Any report comparing multi-category and single-category customers.
Good: It shows what both groups spent before the second category, not only after.
Cost if wrong: You fund cross-selling on a gap that was there before anyone cross-sold anything.
Read next: The 3x Customer

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07 **Cross-buyers are judged on contribution · 5 min**

Look at: Whether you can see contribution per customer, after discounts, returns, shipping and service.
Good: Yes, and you know which cross-buyers lose money.
Cost if wrong: Your cross-sell flow works hardest on the customers who cost the most.
Read next: Cross-Buyers Who Cost You

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08 **Nobody is paid on categories per customer · 2 min**

Look at: Team goals and bonus plans, including agencies.
Good: Category count per customer is reported, never targeted. Targets are on contribution.

Cost if wrong: People find ways to hit the number that don't help the customer or you.
Read next: Products per Customer Is Not a Goal

09 **Cross-category flows have a holdout · 3 min**

Look at: Your cross-sell emails, texts and on-site recommendations.
Good: A random slice of eligible customers never gets them, and you compare the two groups.
Cost if wrong: The flow takes credit for purchases most customers would have made anyway.
Read next: Test the Nudge

10 **New categories launch to the base first · 3 min**

Look at: The last launch plan.
Good: Existing customers got a waitlist or early access before any paid acquisition, and the plan named a repeat-rate target.
Cost if wrong: You pay to acquire strangers into a product your own customers could have told you was wrong.
Read next: Launch to the Base First

11 **Complementors are on a list · 3 min**

Look at: Whether anyone has listed the brands whose products make yours more valuable.
Good: There's a list, and for each candidate category someone has asked "build, buy or partner?"
Cost if wrong: You build a product a partner makes better, and carry its inventory.
Read next: Partner Before You Build

12 **A kill rule was written before launch · 3 min**

Look at: The last launch brief.
Good: It says what repeat rate and contribution by what date would end the line, and someone owns the call.
Cost if wrong: Categories stay on the site because nobody decided to remove them, tying up cash and attention.
Read next: The Next-Category Scorecard

Score as you go; your band appears when all twelve are in.

RUN YOUR NUMBERS

Score the twelve checks

0: failed, or nobody can answer it. 1: partly true. 2: clean. Scores stay in this browser.

01 You know the hero’s share of wallet 5 min	0	1	2
02 You know your rank 3 min	0	1	2
03 The core is still growing inside the base 4 min	0	1	2
04 Candidates are scored, not pitched 4 min	0	1	2
05 Fit was tested with customers 3 min	0	1	2
06 Multi-category value is reported with a before 4 min	0	1	2
07 Cross-buyers are judged on contribution 5 min	0	1	2
08 Nobody is paid on categories per customer 2 min	0	1	2
09 Cross-category flows have a holdout 3 min	0	1	2
10 New categories launch to the base first 3 min	0	1	2
11 Complementors are on a list 3 min	0	1	2
12 A kill rule was written before launch 3 min	0	1	2

0 of 24 points	0 of 12 checks scored

Score all twelve to read your band. 12 to go.

RESET SCORES

Read your score

SCORE	WHAT IT MEANS	READ NEXT
20–24	You expand on evidence. Your job now is picking the next step and launching it to the base with a kill rule.	How Far Is One Step?, then Launch to the Base First
14–19	Some of what you believe about your multi-category customers is true and some isn't. Fix the zeros before the next launch.	The chapter linked from your lowest check, then The 3x Customer
8–13	You're choosing categories on excitement and grading them on a slide. Measure the core before adding to it.	Part one, starting at Headroom Before Horizon
0–7	Pause the next launch for a month. Measure share of wallet and contribution per customer first.	Headroom Before Horizon, then The First Thirty Days

If you sell one category today, checks 6, 7 and 9 score 0 and that's fine: they're about categories you haven't added yet. Look at the other nine instead. A clean 18 on those nine means you're ready to choose.

Do this

- **Score all twelve checks this week** with whoever owns the data, and read the chapter linked from your lowest check first.

HEADROOM BEFORE HORIZON

Before you sell customers something new, find out how much of their spending on the old thing still goes to someone else.

A customer who buys your coffee every month looks loyal in your data. Your data can’t see the two other brands in her cupboard. Share of wallet, the share of a customer’s category spending that comes to you, is the first number to know before adding a category, because it says how much growth is left in the one you have.

Your best customers aren’t where the headroom is

The obvious guess is that your biggest spenders are loyal and your small spenders are the opportunity. Rex Du, Wagner Kamakura and Carl Mela found in 2007 that it doesn’t hold: the volume of customers’ transactions with the firm had little correlation with the volume of their transactions with competitors, and a small share of customers accounted for a large part of all the transactions that went elsewhere PUBLISHED . Some of your modest customers are big spenders in the category who give most of it to someone else. You can’t find them in your order data. You have to ask.

Rank predicts share

Timothy Keiningham and his colleagues went looking for the survey question that predicts share of wallet. Satisfaction and Net Promoter scores, they wrote in Harvard Business Review in 2011, “correlate poorly with what matters most: share of wallet” PUBLISHED . What did predict it was rank: where a customer places your brand among the brands they buy in

the category. Their Wallet Allocation Rule turns that into a share with two inputs, your rank and the number of brands the customer uses:

THE WALLET ALLOCATION RULE

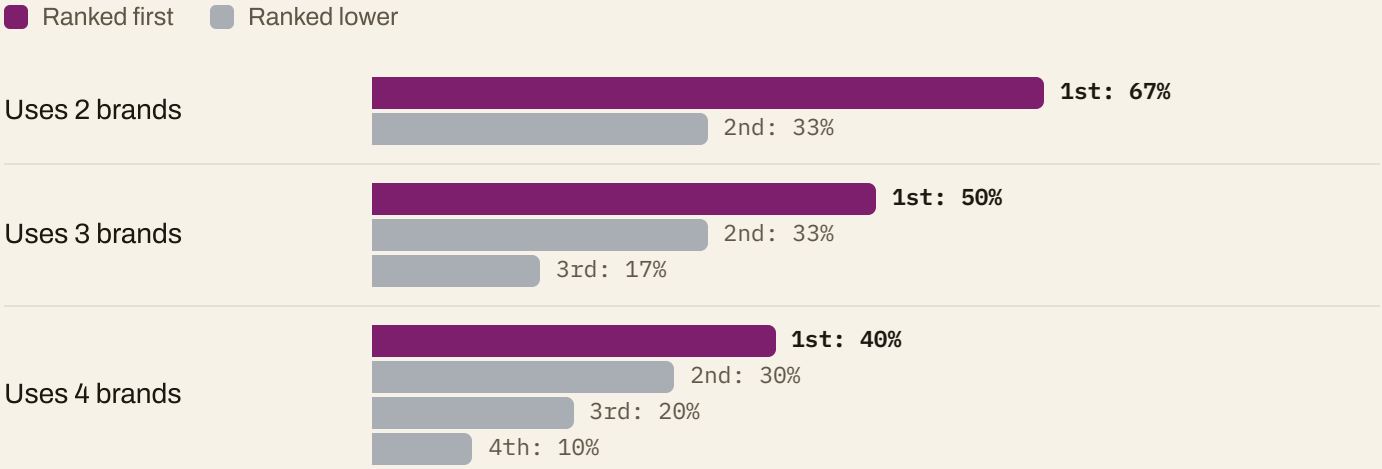
$$\text{share} = (1 - \text{rank} \div (\text{brands} + 1)) \times (2 \div \text{brands})$$

For a customer who buys three brands: first gets 50%, second 33%, third 17%. The shares always add to 100%.

PUBLISHED Keiningham, Aksoy, Williams and Buoye, The Wallet Allocation Rule, 2015. The authors describe the underlying work as a two-year study of more than 17,000 consumers in more than a dozen industries and nine countries **REPORTED** .

Being second is worth much less than being first

Share of a customer's category spending predicted by the rule, by rank and by how many brands they use.



DERIVED From the formula above.

Treat the rule as a starting point, not a law. Most of its evidence comes from the authors' own studies, and it assumes customers can rank brands they buy for different reasons. Check it on your data: survey a few hundred customers on category spend and rank, and compare their stated share with what they spend with you. If the two roughly agree, rank becomes your share-of-wallet tracker. The survey is in Appendix B.

> **A customer who ranks you second of three gives you about a third of their spend, and feels loyal while doing it.**

What headroom is worth

Say a brand has 20,000 active customers. Its survey says a typical customer spends $300 a year in the category, uses three brands and ranks this one second. The brand gets about $90 a year from each, a 30% share, a little under the rule's 33% for second place. If it could move three in ten customers from second to first, their predicted share would go from 33% to 50%: about $50 more per customer a year, or $300,000 across 6,000 customers DERIVED . No new product, no new inventory, no new supplier.

If the next category's plan says $250,000 in year one, before development and stock, the core is the bigger opportunity, and the cheaper one.

RUN YOUR NUMBERS

How much is left in the core?

Example numbers. Replace with yours. Category spend, brands and rank come from a customer survey; revenue per customer comes from your orders.

Active customers, last 12 months

20000

A typical customer's yearly spend in the category, all brands

$ 300

Their yearly spend with you in the category

$ 90

Brands a typical customer buys in the category

3

Your typical rank among them (1 is favorite)

2

Share of customers you could move up one rank

30 %

Year-one revenue in your new-category plan

$ 250000

30%	33%	$300K	$4.2M

your share of wallet now	the rule's share for ranking second of 3	more a year if 30% of customers moved from second to first	category spending that goes to other brands each year

> **Moving 30% of customers up one rank is worth $300,000 a year, 1.2 times your new category's year-one plan, with no new inventory. Work the core first.**

Uses the Wallet Allocation Rule for predicted shares. Revenue, not profit: a core gain usually carries your existing margin and needs no new inventory, while a new category needs both.

With the defaults, the brand holds a 30% share, the rule predicts 33% for second place, and moving three in ten customers to first is worth $300,000 a year, 1.2 times the new category's year-one plan.

Moving up a rank

You move up a rank by finding out why customers put someone else first, and removing the reason. Ask the customers who rank you second what the first brand does better. The answers tend to be practical: a size you don't sell, a worse price per unit, a flavor you discontinued. Those are core fixes, usually cheaper than a launch. The mechanics of later orders are in The Second Order.

Do this

- **Survey 300 or more active customers this month** with the three questions in Appendix B: category spend, brands bought, rank. Join the answers to their order history.
- **Run the calculator** with the medians, then again for your top spending decile. Write both headroom numbers above the next category's plan in the launch brief.

THE ADJACENCY RECORD

The best-known evidence for “grow from a strong core, one step at a time” comes from Bain & Company. It’s useful, and it was drawn from winners. Here’s how much weight it can carry.

Chris Zook, then a partner at Bain, built a trilogy on one idea: companies that sustain profitable growth usually have a strong core and expand from it into the next ring out, repeatedly, rather than leaping. Profit from the Core (2001, with James Allen) and Beyond the Core (2004) are still the best-known books on the subject.

The numbers, as Bain tells them

- **Sustained growth is rare.** Bain’s page for Profit from the Core says “only 11% of companies” grew revenue and profit by 5.5% a year or more over a decade while earning back their cost of capital. In a 2004 interview Zook gave the same figure as 13%, from a study of 8,000 companies REPORTED .
- **Most adjacency moves fail.** “Only one in four” succeed, according to a 2004 Bain article by Alistair Corbett and Zook, and Zook repeated the one-in-four estimate in 2015. Bain’s page for Beyond the Core says one in five REPORTED .
- **Distance matters.** In Zook’s 2015 article, the odds were highest for new products sold to core customers and lowest for new businesses built on a capability. In the 2004 interview, Zook said the odds of success “declined dramatically” for moves more than one and a half to two steps from the core REPORTED .

- **Repeating a formula pays.** Companies that expanded with a repeatable formula grew revenue three times faster than the average in their industry, according to Zook and Allen's 2003 Harvard Business Review article REPORTED .

Notice that last one. It's another "3x," and it has the same weakness as the multi-category customer's 3x in chapter 7: the companies that found a repeatable formula were probably stronger before they found it.

Why it's graded Reported, and why that matters

Bain is a consultancy that sells growth strategy. I can't find where it has published the data, sample rules or method behind these figures, so they can't be checked. The figures shift between tellings: 11% or 13%, one in four or one in five. Preston Smith, reviewing Beyond the Core for the Product Development and Management Association, pointed out that the companies in Bain's database were "most likely Bain clients and probably are not selected randomly," that the interviews and cases were a convenience sample, and that the book "does not reveal the research design, methodology, data, or actual results of the analyses" REPORTED .

The deeper problem is survivorship. Much of the method starts with the companies that grew and asks what they did. Beyond the Core drew on profiles of about 100 companies with the best growth records and interviews with 25 of their CEOs REPORTED . Companies that took the next step and failed, or stayed close and stalled, are much harder to see. And distance is judged after the fact: a move that worked looks close in hindsight, and one that failed looks like a stretch. Phil Rosenzweig called this the halo effect: success colors how we describe the strategy that preceded it PUBLISHED .

> **A study of winners tells you what winners did. It can't tell you what the losers did differently.**

One example makes the point. Profit from the Core, published in 2001, used Enron as one of its examples; a 2008 Businessweek review of the book noted that Enron was bankrupt by the end of the year the book came out REPORTED . By 2004, Bain's own article listed Enron among "the 25 largest business disasters in the past five years," 18 of which it said were "rooted in major adjacency moves gone awry" REPORTED . The same company was a core-strategy

example in 2001 and an adjacency disaster in 2004. The story changed because the outcome did.

What survives

The direction is still probably right, because it agrees with evidence that doesn't come from Bain. Brand extension research, in chapter 5, finds that fit between the old product and the new one is the strongest single driver of an extension's success. Scanner-data research in chapter 11 finds that experience with the parent brand drives trial of the extension. Both say the same thing Zook says, from data anyone can inspect: the closer the next step, the more of your existing trust it can use.

So take the adjacency record as a prior, not a law. Stay close unless you have a specific reason not to, and don't quote "one in four" as a measured success rate for DTC brands; nobody has measured that. And check the thing Zook put first: that the core is strong. A new category launched to cover a core that's losing share of wallet is the pattern his books warn about most.

Do this

- **Pull revenue per active customer from the hero product** for each of the last three years. If it's falling, the next category is the second priority. Find out why with the survey in chapter 2.
- **List every expansion you've tried,** including the ones you quietly dropped. Your own record, failures included, is a better guide to your odds than anyone's study of winners.

PART TWO · CHOOSING THE STEP · CHAPTER 4

HOW FAR IS ONE STEP?

Zook counted steps from the core but never published how. Here's a version you can count yourself: four things a new category can share with the one you have.

"Adjacent" is the most flexible word in a planning meeting: everything is adjacent to something. To make it useful, ask what the new category shares with the core, one dimension at a time. Each no is a step.

The four shared things

01 **Customer**

Do your customers already buy this category, from anyone? Ask them. If few do, you're acquiring a new audience with your brand on it. Score 3 if most already buy it, 0 if almost none do.

02 **Occasion**

Is it used at the same moment, for the same need, as the hero? Filters are used every time the coffee is. A sweatshirt isn't. Score 3 if it's used with the core every time, 0 if never.

03 **Supply chain**

Same kind of supplier, manufacturing, packaging, shelf life, shipping cost and returns? A new supply chain brings new minimums, inventory risk and ways to be late. Score 3 if current suppliers and warehouse can handle it, 0 if everything is new.

04 **Proof**

Does the reason people trust the hero carry over? If they buy you because you're the most durable or the best tested, does that obviously apply to the new thing? Score 3 if it applies without explanation, 0 if you'd earn it from scratch.

A score of 0 or 1 on any dimension counts as a step. No steps means you're deepening the core. One step is the next ring. Two is a stretch that usually needs a partner or a very good

reason. Three or four is a new business, and it should have its own business case, not a slot in the product calendar.

Proof matters most. The brand extension research in chapter 5 found that fit is the first thing customers judge an extension on, and a 2023 meta-analysis of that research found that usage fit, which turns on how the products are used, was the weakest kind PUBLISHED . So a shared occasion without shared proof is probably weaker than it looks. Filters for a coffee brand pass on both. A coffee brand's branded mugs pass on occasion and fail on proof: nobody thinks a roaster makes better mugs.

> **Count the nos. Each one is a thing you'll have to learn with real money.**

The number that decides it

Distance tells you the risk; the launch still has to pay. The quickest check is how many existing customers must buy in year one to earn back the launch cost: development, samples, inventory you may not sell, photography and the team's time.

Say a coffee brand with 20,000 active customers is weighing cold-brew concentrate. It expects buyers to spend $60 a year on it at a 35% contribution margin, so each buyer is worth $21 a year. Launch costs come to $60,000. It needs about 2,860 buyers, or 14% of its active customers, to break even in year one on the base alone DERIVED . If its own plan assumes 10%, the launch loses money in year one unless it brings in new customers, and new customers cost money to acquire.

RUN YOUR NUMBERS

Score the next category

Example numbers. Replace with yours. Score each shared thing from 0 (nothing shared) to 3 (fully shared).

Shared customer, 0 to 3

3

Shared occasion, 0 to 3

2

Shared supply chain, 0 to 3

Shared proof, 0 to 3

1	2
Active customers, last 12 months	Yearly spend per buyer on the new category
20000	$ 60
Contribution margin on it	One-time launch cost
35 %	$ 60000
Share of customers your plan expects to buy it in year one	
10 %	

8 fit score, of 12	1 step from the core: supply chain	14% of your customers, about 2,858 buyers, to break even in year one	–$18,000 year-one contribution from the base at your plan, after launch cost

> **One step out, on supply chain: the next ring. Your plan (10% of customers) is short of the 14% needed to break even, so year one loses $18,000 on the base. Cut the launch cost, raise the price or margin, or run a waitlist first and let the sign-up rate tell you.**

A step is any shared thing scored 0 or 1. Break-even counts only existing customers and only year one; new customers the launch attracts are upside you'd pay to acquire. Contribution margin is after product cost, shipping and payment fees.

With the defaults, the cold brew scores 8 of 12 and sits one step out, on supply chain. It needs 14% of customers to buy in year one to break even, and the plan's 10% leaves an $18,000 loss on the base. That's not a reason to kill it. It's a reason to run the waitlist in chapter 11 before ordering stock, and let 2,000 sign-ups or 200 tell you which plan is real.

Score candidates as a group, with someone who talks to customers every week. The scores are judgments; writing them down before launch stops them changing after it.

Do this

- **Score your top three candidate categories** with the tool, in one meeting, and keep the sheet. Anything two or more steps out goes to chapter 12 before it goes to a supplier.
- **Test "shared customer" with the survey,** not a guess: ask what share of your customers already buy each candidate category somewhere else.

PART TWO · CHOOSING THE STEP · CHAPTER 5

WILL THEY BELIEVE YOU MAKE IT?

Thirty-five years of brand extension research agree on one thing: customers judge a new product by whether it fits what they already believe about you. The details are messier than the textbooks say.

Liking a brand isn't the same as believing it can make something else. Customers who love your sunscreen may not trust your supplements. The research on why started with one paper.

Aaker and Keller, and what happened next

In 1990 David Aaker and Kevin Lane Keller asked consumers to rate proposed extensions of well-known brands. Their model said an extension would be judged on the perceived quality of the parent brand, on three kinds of fit (is the new product a complement to the old one, a

substitute for it, and would the brand's skills transfer to making it), and on how hard the new product seemed to make. What they found was that fit and difficulty mattered, and quality mattered mainly when there was fit. The parent brand's quality on its own didn't lift the extension PUBLISHED . A great brand stretching into something unrelated didn't carry its reputation with it. And an extension that looked too easy to make was rated lower, as if the brand were cashing in its name.

Then came the replications. Sunde and Brodie repeated the study in 1993 and got different results, and several more replications around the world disagreed with each other PUBLISHED . In 2001 Paul Bottomley and Stephen Holden pooled the original data with seven replications and found support for the full model, but concluded that "the level of contribution of each of these components varies by brand and culture" PUBLISHED . In 2006 Raj Echambadi and colleagues reanalyzed the same pooled data and argued that Bottomley and Holden's simple effects were estimated incorrectly: what predicted extension ratings was quality and fit together, not either alone PUBLISHED .

The field argued about the details for fifteen years. Nobody overturned the finding that fit matters.

The ranking, and the meta-analysis

Franziska Völckner and Henrik Sattler tested ten success factors from the earlier research at once, in 2006, and ranked them. Fit between the parent brand and the extension came first, then marketing support, then parent-brand conviction (how strongly customers believe in the parent), retailer acceptance and parent-brand experience PUBLISHED . For a DTC brand, "retailer acceptance" is your own site and email: whether the extension gets real placement or a tile at the bottom of the collection page.

In 2023 Chenming Peng, Tammo Bijmolt, Völckner and Hong Zhao published the meta-analysis: 2,134 effect sizes from research between 1990 and 2020. Both parent brand equity and fit raised extension success. Among the kinds of fit, usage fit had the weakest effect PUBLISHED . That's one reason chapter 4 weighs proof, whether the brand's skill obviously carries over, above a shared occasion.

> **Customers don't ask whether they like you.**
> **They ask whether you'd be good at this.**

The cost of a bad fit

A poor extension doesn't only fail on its own. Barbara Loken and Deborah Roedder John found in experiments that extensions whose attributes contradicted what people believed about the family brand could dilute those beliefs, though less when people saw the extension as untypical of the brand PUBLISHED . Vanitha Swaminathan and colleagues, using household scanner data on six real extensions, found signs that unsuccessful extensions could hurt choice of the parent brand, while successful ones helped it, most of all among people who hadn't bought the parent before PUBLISHED .

For a DTC brand the risk is specific: a brand known for testing launches something untested, or a durability brand launches something that breaks, and its reviews sit on the same site as the hero's.

Ask before you build

The research method is also the cheapest fit test there is. Describe the candidate in one line and ask customers, on a 1 to 7 scale: how well does this fit what you know of us, how good would we be at making it, how likely are you to buy it. Get at least 200 answers; the survey is in Appendix B. Stated intent overstates buying, so compare candidates with each other and let the waitlist in chapter 11 do the real test.

Do this

- **Run the three-question fit survey** on your top three candidates before any samples are ordered. Drop any candidate that scores last on "how good would we be at making it," whatever its purchase intent.
- **Write down the proof** the new product would borrow from the hero, in one sentence. If you can't, the proof score in chapter 4 is a 0 or 1.

TWO EXPANSIONS

A cooler company that became mostly a drinkware company, and a shoe company that stopped making its first apparel line. What their filings say, and what they don't.

Both of these companies sell mostly direct to consumers, both are public, and both expanded beyond their first product. One expansion became the larger part of the business. The other's first line was discontinued. Everything here comes from their SEC filings.

YETI: from coolers to cups

YETI was founded in 2006 by Roy and Ryan Seiders, who wanted a "nearly indestructible hard cooler with superior ice retention" for hunting and fishing FILED . In 2014 it launched the Hopper soft cooler and, in its words, "entered a new category with the Rambler drinkware line" FILED . Net sales went from $89.9 million in 2013 to $468.9 million in 2015 FILED . By 2019 drinkware was 58% of net sales, and in 2024 it was 60%, with coolers and equipment at 38% FILED . The direct channel was 59% of net sales in 2024 FILED .

FILED YETI Holdings, Form S-1, July 2016; Form 10-K for 2019, February 2020; Form 10-K for 2024, February 2025.

On the four shared things, drinkware scores high on customer (the same outdoor buyer), occasion (the same trips and job sites) and above all proof: a brand trusted for ice retention is believed when it says it keeps a drink cold. It's weaker on supply chain, a different product to make at a much lower price. That's one step out. The company describes its method the same way: "anchor products, followed by product expansions," such as sizes and colorways, then accessories FILED . Core first, then the next ring, then the ring after.

Two cautions. Scoring a success after the fact is the hindsight chapter 3 warned about. And the filings don't split drinkware's growth between cooler owners and new customers; the

2016 filing credits the 2014 launches with expanding YETI's "reach beyond the premium hard cooler category" FILED . A cheaper product that carries the brand's proof is also an entry point.

Allbirds: apparel

Allbirds built its brand on wool sneakers. Its 2023 annual report says footwear "represents the vast majority of our revenue and is the foundation of our brand" FILED . The same report explains what happened to its first apparel line: "our customers have not purchased certain of these products in sufficient quantities," demand "failed to meet our expectations," and in the second quarter of 2022 the company "determined that we needed to adjust our overall apparel strategy and discontinue the product line" FILED . It still sells tees, sweats, socks and underwear, described as secondary offerings.

Net revenue fell 14.7%, from $297.8 million in 2022 to $254.1 million in 2023, and the net loss widened from $101.4 million to $152.5 million FILED . The 2024 annual report sets the goal of growing "within our existing customer base" and increasing "closet share by focusing on our core franchise products" FILED . Closet share is share of wallet, in apparel. After the expansion, the plan was headroom in the core.

FILED Allbirds, Form 10-K for 2023, March 2024; Form 8-K with fourth-quarter 2023 results, March 12, 2024; Form 10-K for 2024, March 2025.

Be careful with the lesson. Apparel wasn't Allbirds' only problem: the March 2023 transformation plan also slowed store openings and reconsidered its international approach FILED . And the filing says customers didn't buy enough, not why. The honest reading is narrower: a brand whose proof was comfort and materials in shoes found that the proof didn't carry customers into first-generation apparel in the numbers it planned for, and the plan it wrote afterward pointed back at the core.

> **One expansion borrowed the core's proof. The other borrowed its name.**

Both companies ended up talking about the core: YETI's method starts with anchor products, and Allbirds' recovery plan starts with core franchises and closet share. Filings

show outcomes, not mechanisms, so use cases like these to ask better questions about your own candidates, not to predict them.

Do this

- **Score YETI's drinkware and Allbirds' apparel** with the chapter 4 tool as you imagine they looked before launch, then score your own candidate. If yours looks more like the second, ask what proof it borrows.

PART THREE · HONEST NUMBERS · CHAPTER 7

THE 3X CUSTOMER

Customers who buy from two categories spend more than customers who buy from one. Most of that gap was there before they bought the second category.

The slide is built the same way everywhere. Split customers into those who have bought from more than one category and those who haven't, compare a year's spending, and divide. Then comes the leap: get single-category customers to buy a second category and they'll be worth that multiple.

Why the gap is mostly selection

To buy from two categories, a customer has to buy at least twice, or buy a bigger basket. Customers who buy often, and have been around longer, have more chances to try

something else. So “multi-category” is partly another name for “already buys a lot,” and the slide reports that the group who buy more buy more.

The research says the same. V. Kumar, Morris George and Joseph Pancras studied what predicts cross-buying at a catalog retailer and found that, alongside the firm’s marketing, it tracked how customers already behaved: how often they bought, how much they returned, how focused their buying was, and which category they started in PUBLISHED . Werner Reinartz, Jacquelyn Thomas and Ganaël Bascoul tested the direction directly, on two data sets, and concluded that “cross-buying is a consequence and not an antecedent of behavioral loyalty”: loyal behavior drives the number of categories people buy from, not the other way around PUBLISHED .

Annual reports make the claim the other way. Warby Parker’s 2024 10-K says customers who shop “across product lines and channels tend to convert to highly loyal returning customers” FILED . That may be true, but as written it’s a correlation, and it would read the same if loyal customers simply went on to buy more lines.

> **Multi-category customers aren’t valuable because they buy more categories. They buy more categories because they were already valuable.**

Recommendations have the same problem. Amit Sharma, Jake Hofman and Duncan Watts used natural experiments on Amazon and estimated that at least 75% of the clicks through recommendations would likely have happened without them, through search or another route PUBLISHED . Attribution credited the recommendation for traffic that was coming anyway.

Put a “before” next to the “after”

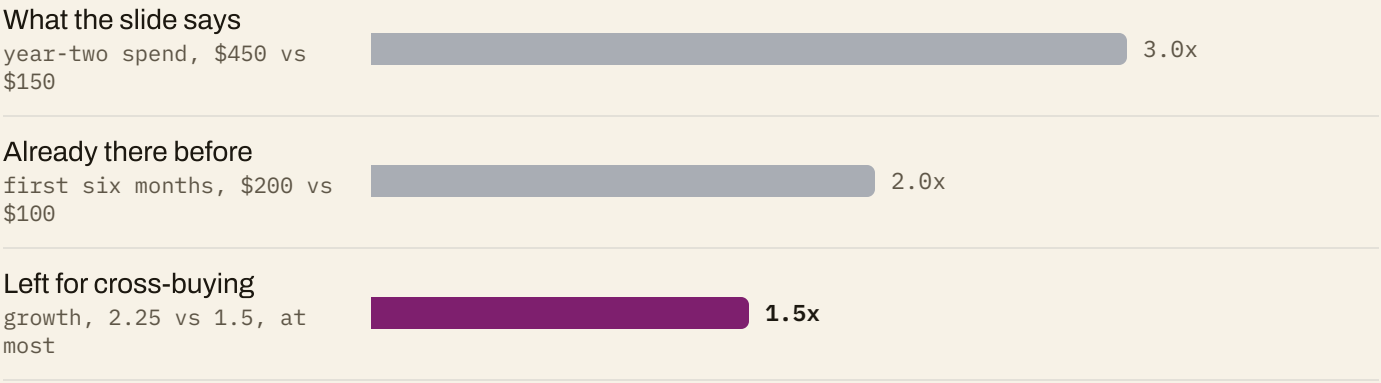
You can’t remove selection from observational data, but you can size it. Compare what the two groups spent before any of them bought a second category, then compare growth, not level.

Say a brand’s multi-category customers spent $450 in their second year and its single-category customers spent $150: the slide says 3x. Now look at their first six months, before anyone crossed categories. The future multi-category buyers spent $200; the others spent $100. The gap was already 2x. From that start, the multi-category group grew 2.25 times and

the single-category group 1.5 times, so the most cross-buying could explain is a 1.5x difference. A converted single-category customer would go from about $150 to at most $225 a year: worth up to $75 more, not $300 DERIVED .

Most of the 3x was there before the second category

Multi-category spend as a multiple of single-category spend, in the example above.



DERIVED From the example's made-up round numbers. Your own split comes from the query in Appendix A.

RUN YOUR NUMBERS

What does your 3x become?

Example numbers. Replace with yours. Group customers by whether they bought a second category; use the same windows for both groups. The query is in Appendix A.

Multi-category customers: average spend, outcome year

$ 450

Single-category customers: average spend, outcome year

$ 150

Multi-category customers: average spend before the second category

$ 200

Single-category customers: average spend, same early window

$ 100

3.0x	2.0x	1.5x	$75
what the slide says	gap already there before the second category	the most cross-buying could explain	most a converted single-category customer could add a year

> **Of the 3.0x, 2.0x was there before anyone crossed categories. The most cross-buying could explain is 1.5x: a converted customer might add up to $75 a year, not $300. Budget on the smaller number, and confirm it with a holdout.**

The third number compares growth from the early window, so it's an upper bound: customers who were about to grow anyway are more likely to cross-buy. Only a holdout (chapter 10) measures what cross-selling causes.

With the defaults, the 3.0x becomes at most 1.5x, and a converted customer is worth up to $75 a year more, a quarter of the $300 the slide implies. That's still worth having. It's a different budget.

Do this

- **Rebuild your multi-category slide** with an early-window column, using the query in Appendix A. Replace the headline multiple with the adjusted one wherever it appears in plans or board decks.

PART THREE · HONEST NUMBERS · CHAPTER 8

CROSS-BUYERS WHO COST YOU

Across five companies, between a tenth and a third of cross-buyers lost money, and they accounted for up to 88% of the losses. Find yours before your cross-sell flow finds them.

Chapter 7 said the value of cross-buying is smaller than the slide claims. This chapter says some of it is negative. Denish Shah, V. Kumar, Yingge Qu and Sylia Chen went looking for the customers conventional wisdom ignores: the ones who buy across categories and lose money doing it.

What they found

They analyzed the customer databases of five firms, in consumer and business markets. Between 10% and 35% of each firm's cross-buying customers were unprofitable, and those customers accounted for 39% to 88% of the firm's total loss from customers. The unprofitable cross-buyers shared "persistent adverse behavioral traits": limited spending, "excessive revenue reversals" (returns and cancellations), excessive service requests and buying on promotion. For these customers, more cross-buying meant bigger losses, a "downward spiral" PUBLISHED .

PUBLISHED Shah, Kumar, Qu and Chen, Journal of Marketing, 2012. Shah and Kumar summarized it for managers as "The Dark Side of Cross-Selling," Harvard Business Review, December 2012.

Every DTC brand has these customers: the buyer who orders three sizes and keeps one, the one who only buys in the sitewide sale, the one who opens a ticket on every order. They show up as multi-category, which is what the cross-sell flow was built to create.

> **A cross-sell flow that doesn't know contribution works hardest on the customers who cost the most.**

Contribution per cross-buyer

Revenue can't see these customers. Contribution can: what's left after discounts, product cost, returns, fulfillment and service. The calculator below takes one customer, or the average of a segment, and adds it up.

RUN YOUR NUMBERS

Does this cross-buyer make you money?

Example numbers for a heavily discounted, high-return segment. Replace with yours, for one segment at a time.

Orders per year: 4	Average order value at full price: $ 80
Average discount: 25 %	Product cost, as a share of full price: 40 %
Share of order value returned: 30 %	Cost to process a returned order: $ 15
Fulfillment, shipping and payment cost per order: $ 14	Service cost per customer per year: $ 20

$168	−$15.60	$1.10	18%
revenue kept per year, after discounts and returns	contribution per year	contribution from one more order	average discount at which this customer breaks even

> **This customer brings in $168 a year and loses $15.60. At an average discount of 18% or less they'd break even. Take them out of discounted cross-sell offers; offer new categories at full price only.**

Assumes returned items are restocked and resold; if they're written off, add their product cost to the cost per return. Service cost is fixed per year, so it isn't in the per-order figure. Marketing cost is left out; add it if you pay to reach this segment.

With the defaults, the customer keeps $168 a year in revenue and loses $15.60. Each extra order adds only $1.10, and at an average discount of 18% or less, instead of 25%, they'd break even DERIVED . On a revenue report this customer looks fine: four orders a year, several categories. On contribution they're a cost, and a discounted cross-sell to a new category makes them a bigger one.

What to do with them

- **Suppress, don't punish.** Take unprofitable cross-buyers out of cross-sell flows and discount campaigns, and nothing else. They may be fine core customers at full price.
- **Launch new categories at full price.** A launch discount recruits the promotion buyers Shah and colleagues describe; use early access instead. Discount training is covered in The First Offer.
- **Watch returns by category pair.** A second category with a new sizing system can raise a customer's return rate. The returns guide in this series covers the fixes.

Do this

- **Compute contribution per customer for everyone who bought from two or more categories** last year, using the query in Appendix A. Count how many are below zero and what share of total losses they cause. Compare with Shah's 10% to 35%.
- **Build a "no cross-sell" segment** from the negative group and exclude it from every cross-category flow by Friday.

PART THREE · HONEST NUMBERS · CHAPTER 9

PRODUCTS PER CUSTOMER IS NOT A GOAL

Two of the biggest cross-selling bets in modern business, both at banks. One was quietly unwound. The other became a fraud case.

If cross-buying followed from loyalty rather than causing it, you'd expect companies that made cross-selling the goal to be disappointed. The two most famous cases were worse than disappointing.

Citigroup: the supermarket

In 1998 Sandy Weill's Travelers Group merged with Citicorp on a simple thesis: one company selling banking, insurance and investments to the same customers would sell more of each. Amey Stone and Mike Brewster's King of Capital tells that story. The thesis didn't hold. In January 2005 Citigroup agreed to sell Travelers Life & Annuity and substantially all of its international insurance businesses to MetLife for $11.5 billion. Its chief executive, Charles Prince, said the sale "sharpens our focus on Citigroup's long-term growth franchises" FILED . The company built to cross-sell insurance from inside one firm sold its life insurance business to a specialist and agreed to distribute the specialist's products instead.

Wells Fargo: the metric

Wells Fargo went further and made cross-selling the number. From at least 2000 until the third quarter of 2016 it published a cross-sell metric, "the ratio of the number of accounts and products per retail bank household," and presented it to investors as central to its community bank FILED . In September 2016 the Consumer Financial Protection Bureau fined the bank $100 million, alongside $35 million from its bank regulator and $50 million to the City and County of Los Angeles, after employees opened roughly 1.5 million deposit accounts and applied for roughly 565,000 credit card accounts that may not have been authorized, driven by what the Bureau called sales targets and compensation incentives FILED . In February 2020 the bank agreed to pay $3 billion to settle criminal and civil investigations by the Justice Department and the SEC. The SEC said the metric had been "inflated by accounts and services that were unused, unneeded, or unauthorized" FILED .

FILED Citigroup Form 8-K, January 31, 2005; CFPB, September 8, 2016; SEC press release 2020-38 and order, February 21, 2020.

> **When the number of products per customer is the target, people will find a way to add products.**

The DTC version

No DTC brand is going to open accounts in a customer's name. But the mechanism, a count that stands in for value and then becomes a target, shows up in small ways. An agency paid on "multi-category customers" gets there with free samples from a second category, or a deeper discount on it. Each raises the count and lowers contribution per customer, which was the point of the count.

Goodhart's law says a measure that becomes a target stops being a good measure. Report categories per customer; it tells you whether the base is broadening. Pay people on contribution per customer, measured against a holdout.

Do this

- **Read every goal and bonus plan** that touches lifecycle, including agency contracts. Any target on categories per customer, multi-category rate or cross-sell rate gets rewritten as contribution per customer against a holdout.

PART THREE · HONEST NUMBERS · CHAPTER 10

TEST THE NUDGE

Every cross-category email, text and recommendation gets credit for purchases. A holdout tells you how many it caused.

Your cross-sell flow reports every purchase by someone who got the message, within an attribution window. Some bought because of it. If the Amazon estimate for recommendation clicks in chapter 7 carries over, many would have bought anyway. The only way to know the split is to hold some customers back.

How a holdout works

Take everyone who qualifies for the flow, say everyone who has placed a second core order, and randomly assign a fixed share, often 10%, to get nothing from it. They still get newsletters and core flows. After 60 to 90 days, compare the groups on three numbers, counted from the day each customer qualified, opened or not:

- **Share who bought the new category,** the number the flow was built to move.
- **Total contribution per customer,** the number that matters. A customer who buys the new category instead of their usual core reorder adds nothing.
- **Unsubscribes and complaints,** the cost you don't see in revenue.

Say 40,000 customers qualify and 4,000 are held out. In 90 days, 6.0% of the customers who got the flow buy the new category, against 4.5% of the holdout. Attribution would credit the flow with about 2,160 buyers, 6.0% of 36,000. The holdout says it caused about 540, 1.5 points on 36,000: a quarter of what the dashboard shows DERIVED . At these sizes the difference is about four times its standard error, well clear of noise DERIVED . With a smaller list, work out first whether the test can see the lift you care about; the sample-size math is in The Honest Test.

> **Attributed revenue is what the flow was near. Incremental revenue is what it did.**

What to test

- **Timing.** After the first, second or third core order. In field experiments at two business-to-business firms, V. Kumar, Rajkumar Venkatesan and Werner Reinartz timed sales calls to each customer's predicted purchase timing and needs, and the incremental profit came to more than $1 million PUBLISHED .
- **No discount against a discount.** Expect the discount to win on buyers and often lose on contribution, for the reasons in chapter 8.
- **Who gets it.** Exclude unprofitable cross-buyers, and read heavy and light core buyers separately: heavy buyers cross-buy more with or without the nudge.

Bundles and cart add-ons are the same question at checkout: they need a holdout too, and they're covered in The First Offer.

Keep a standing holdout

A small permanent holdout, 5% of new customers who never get cross-category messages, lets you check every quarter whether the whole cross-sell program still adds contribution. It costs a little revenue, and it's the one cross-sell number nobody can argue with.

Do this

- **Add a 10% random holdout to your main cross-category flow** this week, split at the moment customers qualify. Put a date 90 days out in the calendar to read it with the query in Appendix A.

LAUNCH TO THE BASE FIRST

Your existing customers will try the new category more readily than anyone. That makes them the cheapest test, as long as you judge the result on the second order.

The usual launch builds the product, shoots the ads, spends on acquisition and emails the list on launch day with everyone else. It pays to acquire strangers into a product your own customers could have judged for free.

What the base tells you, and what it doesn't

Vanitha Swaminathan, Richard Fox and Srinivas Reddy followed six real brand extensions through a national household scanner panel. Experience with the parent brand had a significant effect on whether households tried the extension, and not on whether they bought it again PUBLISHED . Your customers will try the new thing because they like you. They'll buy it a second time only if the product earns it.

That's the case for launching to the base first, and the warning attached to it. The base gives you trial cheaply and quickly. It also inflates first-order numbers with goodwill. So read a base launch on repeat: the share of first buyers who buy the new category again within about one and a half times its natural reorder interval. Timing the reorder itself is covered in The Second Order.

> **Trial measures how much they like you. Repeat measures how much they like the product.**

A next category grows slowly

Warby Parker sells glasses first. It launched Scout daily contact lenses in 2019. Five years later, in 2024, contacts were 10.2% of its $771.3 million in net revenue, and eye exams and vision care another 5.3% FILED . That's one step out on the four shared things (the same customers, the same need to see well, and the same optical proof) and it still took years to reach a tenth of revenue. Plan the next category's first year as a test, not a second engine.

The sequence

01 **Fit survey**

The three questions from chapter 5, before any samples are ordered.

02 **Waitlist**

Email active customers, and text those who agreed to marketing texts, with a short description and a waitlist button. No discount. Record sign-ups by segment.

03 **First run, sized to the waitlist**

Stock for the waitlist's likely buyers, not the launch plan. Early access at full price.

04 **Read repeat**

At one and a half times the reorder interval: how many first buyers reordered, and their contribution after returns.

05 **Then open it up**

Spend on acquisition only when repeat clears the bar in the launch brief.

Say the coffee brand from chapter 4 emails its 20,000 active customers about cold-brew concentrate, and 1,600 join the waitlist, 8% of the base. If 40% of the waitlist buys in the first month, that's 640 buyers, 3.2% of the base, against the 14% it needs in year one to earn back the launch cost DERIVED . More customers will buy over the year, so the gap isn't fatal, but it says: small first run, then wait for the repeat rate.

Do this

- **Write the repeat bar into the launch brief** before the waitlist opens: what share of first buyers must reorder, by what date, for the category to get acquisition spend. The brief is in Appendix B.
- **Send the waitlist email** for your top candidate. Use the sign-up rate, by segment, to size the first order.

PART FOUR · LAUNCHING · CHAPTER 12

PARTNER BEFORE YOU BUILD

Some products make yours more valuable. You don't have to make them to benefit from them.

Adam Brandenburger and Barry Nalebuff's Co-opetition (1996) added a player that most strategy maps leave out. Next to customers, suppliers and competitors sit complementors: companies whose products make customers value yours more when they have both PUBLISHED . The textbook example is computer hardware and software. For a DTC brand, it's the grinder for the coffee, the vet service for the pet food, the carrier for the baby clothes.

Why a partner beats a launch two steps out

A candidate that scores two steps out in chapter 4 usually fails on supply chain, proof or both. A complementor already has both. Partnering gives your customers the product without your needing its factory, its inventory or its credibility. It also gives you evidence. If your customers buy a partner's product in numbers, you've tested the category without owning it, and you can decide later whether to build.

> **A partner sells you the option to launch later, for the price of a conversation now.**

Forms, from lightest to heaviest

- **Recommend.** A page or email: what we use with our product. If the partner pays you, disclose it clearly: under the FTC's Endorsement Guides, updated in June 2023, a paid relationship is a material connection customers must be told about PUBLISHED .
- **Co-market.** Each brand features the other in its own emails, to its own consenting list. Don't swap lists. Handing customer data to a partner in exchange for something of value can count as a sale of personal information under California's privacy law, which gives customers the right to opt out PUBLISHED . Have counsel review any data sharing.
- **Co-branded edition.** A limited product made together. It borrows both brands' proof; set the fit questions from chapter 5 on both sides.
- **Resell.** You stock the partner's product. You take on inventory, but not development. Price and bundling are covered in The First Offer.

Choosing a complementor

Score the partner's category on the same four shared things, from your customer's side. Then ask two more questions: do their customers look like yours, so the benefit runs both ways, and would their worst failure embarrass you? Their product sits next to your name, so the dilution research in chapter 5 applies to them too.

Test a partnership like a nudge: hold out a slice of your list and compare contribution per customer after 60 days. A partnership that only moves the partner's revenue is a favor, not a strategy.

Do this

- **List five complementors**: brands whose products your customers use with yours. For every candidate category that scored two or more steps out, ask whether one of them already makes it well.
- **Propose one co-marketing test** with a holdout, using the partner brief in Appendix B.

PART FOUR · LAUNCHING · CHAPTER 13

THE NEXT-CATEGORY SCORECARD

Twelve numbers, reviewed each quarter: three for the core, three for the candidate, six for categories you've already launched.

Revenue can't tell you whether a new category took share from the core, whether its buyers were going to buy more anyway, or whether they return half of it. The scorecard puts those next to revenue.

NUMBER	HOW TO GET IT	HEALTHY	WARNING
The core			

NUMBER	HOW TO GET IT	HEALTHY	WARNING
1. Hero share of wallet	Survey plus orders, chapter 2	Rising, or above the rule's share for your rank	Falling while a new category launches
2. Share of customers ranking you first	Same survey	Rising	Falling
3. Core revenue per active customer	Orders	Flat or rising	Falling two quarters in a row
The candidate			
4. Steps from the core	Scorer, chapter 4	0 or 1	2 or more, with no partner considered
5. Fit survey: "how good would we be at making it"	Chapter 5	Top of your candidates	Bottom, whatever the purchase intent
6. Waitlist sign-ups against break-even share	Chapters 4 and 11	Close to or above break-even	Well below it, with a full stock order placed anyway
Launched categories			
7. Repeat rate of first buyers	At 1.5 times the reorder interval	At or above the bar in the brief	Below it with no kill decision
8. Adjusted multi-category multiple	Calculator, chapter 7	Reported next to the raw one	Raw multiple used in plans
9. Cross-buyers with negative contribution	Calculator, chapter 8	Known, and suppressed from cross-sell	Unknown
10. Incremental contribution per customer	Holdout, chapter 10	Positive and reported quarterly	No holdout
11. Core revenue among new-category buyers,	Same holdout	No lower than the holdout's	Lower: the new category is replacing the core, not

NUMBER	HOW TO GET IT	HEALTHY	WARNING
against the holdout			adding to it
12. Return rate, new category against core	Refunds by category	Similar	Much higher, especially with a new sizing system

Numbers 1, 2, 5 and 6 need a survey or a waitlist; the rest come from order data.

The kill rule

Write it before launch, in one sentence, with a date and an owner: “If fewer than [x]% of first buyers reorder by [date], or contribution per buyer after returns is below $[y], we stop reordering stock and sell through.” Categories rarely fail loudly. They linger, tying up cash and site space, because nobody decided to end them. The kill rule is that decision, made while everyone is still objective.

> **Every category you launch needs a date on which someone is allowed to end it.**

Do this

- **Fill in the scorecard** for the core and for every category you launched in the last two years. Leave blanks blank. Each blank is a query or a survey to schedule.
- **Write a kill rule** for every launched category that doesn’t have one, and put the review date in the calendar.

PART FOUR · LAUNCHING · CHAPTER 14

THE FIRST THIRTY DAYS

Four weeks from “we should launch something” to a decision you can defend, with evidence for it.

None of this needs new software: a survey, three queries, a holdout flag in your email platform and one scoring meeting. Here’s the order.

01 **Week 1 · Measure the core**

Score the audit in chapter 1. Send the share-of-wallet survey to active customers. Pull core revenue per active customer for three years. Run the headroom calculator with whatever you have, and update it when the survey closes.

02 **Week 2 · Correct the numbers**

Rebuild the multi-category comparison with an early window (chapter 7). Compute contribution per cross-buyer and build the “no cross-sell” segment (chapter 8). Add a 10% holdout to your main cross-category flow (chapter 10). Check goals and bonus plans for category-count targets (chapter 9).

03 **Week 3 · Score the candidates**

Score every candidate on the four shared things in one meeting (chapter 4). Send the fit survey on the top three (chapter 5). For anything two or more steps out, list complementors and contact one (chapter 12).

04 **Week 4 · Decide**

Put headroom next to the best candidate’s break-even. If the core is the bigger opportunity, the next quarter goes to moving customers up a rank. If the candidate wins, write the launch brief with its repeat bar and kill rule, and open the waitlist to the base (chapter 11).

At the end of the month you’ll have a share-of-wallet number, an honest multi-category multiple, a list of cross-buyers who cost money, a running holdout and a scored shortlist.

Do this

- **Put the four weeks in the calendar today,** with one owner, and move the next launch's stock order to after week 4.

CLOSE

DAY ONE

Six things the person deciding the next category needs on the first day.

Whoever owns the decision, a new head of growth, an agency or you, needs six things on day one. Without them, the first month goes on hunting for them.

01 **Order data by customer and category**

Every order line with its product category, discount, refund and customer, back at least two years.

02 **Contribution per order**

From finance: product cost, fulfillment, shipping, payment fees and return costs, so customers can be judged on what they leave.

03 **The last survey, raw**

Any question about category spend, other brands or rank, with answers joined to customer IDs.

04 **Every launch, including the dropped ones**

What was launched, when, what it cost, how it sold, and whether it's still on the site.

05 **Flow access with holdout controls**

The email and SMS platform, with the ability to split a random holdout at the moment customers qualify.

06 **Goals and bonus plans**

For the team and every agency, so no one is paid on a count that can be manufactured.

Do this

- **Ask for all six in one message** today. Whatever comes back slowest is where the brand knows least about its own customers.

CLOSE

THE SHELF

The books and papers this guide leans on, and what to take from each.

Profit from the Core

Chris Zook with James Allen, 2001

The argument that growth starts with a strong core. Read it for the frame, and read its numbers as a consultancy's reported data.

Beyond the Core

Chris Zook, 2004

The six kinds of adjacency and the idea of counting steps from the core. The most useful of the trilogy for choosing a next category.

The Wallet Allocation Rule

Timothy Keiningham, Lerzan Aksoy, Luke Williams and Alexander Buoye, 2015

Why rank beats satisfaction for predicting share of wallet, and how to measure it. The basis of chapter 2.

Co-opetition

Adam Brandenburger and Barry Nalebuff, 1996

The value net and complementors. Read it before you build anything a partner already makes.

The Halo Effect

Phil Rosenzweig, 2007

Why studies of successful companies mislead, and how to read one. The antidote to every "what the winners did" book, including the first two on this shelf.

King of Capital

Amey Stone and Mike Brewster, 2002

Sandy Weill and the building of Citigroup: the cross-selling thesis told from inside, before it was unwound.

And the research: Peng and colleagues' 2023 meta-analysis on brand extensions, Reinartz, Thomas and Bascoul (2008) and Shah, Kumar, Qu and Chen (2012) on cross-buying, and Sharma, Hofman and Watts (2015) on what recommendations cause. Full references are in Appendix C.

CLOSE

ABOUT THE AUTHOR

Andrew Lauchner is a growth and retention operator for consumer brands and the author of sixteen free books on the method. He fixes the second-purchase problem through his practice, Growth Legend, as one engagement: The Second-Purchase Sprint. He is the author of The Second Order, on turning first-time buyers into second-time buyers, and The Whole Machine, on the fundamentals of DTC growth, along with a series of field guides for DTC operators at andrewlauchner.com.

As Senior Director of Growth and Retention Marketing at Gallery Furniture, he rebuilt the customer journey and the sales playbooks together. He has worked on growth and retention at Binance and 3Commas, and has been Head of Growth and Retention at Greatness Wins and at Nexus Agriscience.

WHAT COLLEAGUES SAY

“Andrew led retention, lifecycle, and email/SMS, but what separates him from most in this space is how deeply he understands the role retention plays in the overall growth engine.”

Akram Khan, Head of Marketing at Gallery Furniture, senior to Andrew but didn’t manage Andrew directly

Andrew answers every note from operators working on this. Write to andrew@growthlegend.com or message him on LinkedIn.

APPENDIX A

FOR YOUR ANALYST

The formulas behind the four calculators, and four queries every brand with more than one category should be able to run.

The formulas

FOR	FORMULA	NOTES
Wallet Allocation Rule	`share = (1 − r/(n + 1)) × 2/n`	r: your rank; n: brands the customer uses. Keiningham and colleagues.
Break-even buyers	`launch cost / (spend per buyer × margin)`	Divide by active customers for the share. Year one, base only.
Adjusted multiple	`(A/B) / (C/D)`	A, B: outcome-year spend, multi and single. C, D: early-window spend. An upper bound on the causal effect.
Contribution per order	`v(1−d)(1−r) − vc(1−r) − r×rc − f`	v: full-price order value; d: discount; r: share returned; c: product cost share; rc: cost per return; f: fulfillment per order. Per year: orders × this − service.
Break-even discount	`1 − (s/o + vc(1−r) + r×rc + f) / (v(1−r))`	s: service cost per year; o: orders per year.

FOR	FORMULA	NOTES
Holdout lift	$(p_T - p_H) \pm 1.96\sqrt{p_T(1-p_T)/n_T + p_H(1-p_H)/n_H}$	p: share who bought the new category; T: treated, H: holdout. Incremental buyers: lift × n_T.

Share of wallet, from the survey

```
-- survey_responses: customer_id, category_spend_12m, brands_used, our_rank
WITH ours AS (
  SELECT o.customer_id, SUM(ol.net_amount) AS our_spend_12m
  FROM orders o
  JOIN order_lines ol ON ol.order_id = o.id
  JOIN products p     ON p.id = ol.product_id
  WHERE p.category = 'coffee'                      -- the hero's category
    AND o.created_at >= CURRENT_DATE - INTERVAL '12 months'
  GROUP BY o.customer_id
)
SELECT s.our_rank, s.brands_used, COUNT(*) AS customers,
       AVG(LEAST(1, COALESCE(ours.our_spend_12m, 0)
                    / NULLIF(s.category_spend_12m, 0)))     AS actual_share,
       AVG((1 - s.our_rank::numeric / (s.brands_used + 1))
           * (2.0 / s.brands_used))                         AS rule_share,
       SUM(s.category_spend_12m - COALESCE(ours.our_spend_12m, 0)) AS spend_elsewhere
FROM survey_responses s
LEFT JOIN ours USING (customer_id)
WHERE s.brands_used BETWEEN 1 AND 20
  AND s.our_rank BETWEEN 1 AND s.brands_used
GROUP BY s.our_rank, s.brands_used
ORDER BY s.brands_used, s.our_rank;
```

If actual and rule shares roughly agree across rows, rank is a usable tracker. Stated spend is noisy: use medians in the calculator.

The selection check

```
-- groups customers by when they first bought outside their first category
WITH lines AS (
  SELECT o.customer_id, o.created_at, p.category,
         ol.net_amount - COALESCE(rf.amount, 0) AS net
  FROM orders o
```

```
  JOIN order_lines ol ON ol.order_id = o.id
  JOIN products p     ON p.id = ol.product_id
  LEFT JOIN (SELECT order_line_id, SUM(amount) AS amount
             FROM refunds GROUP BY order_line_id) rf
         ON rf.order_line_id = ol.id
),
firsts AS (
  SELECT customer_id, MIN(created_at) AS first_at FROM orders GROUP BY customer_id
),
first_cat AS (
  SELECT DISTINCT ON (l.customer_id) l.customer_id, l.category
  FROM lines l JOIN firsts f USING (customer_id)
  WHERE l.created_at = f.first_at
  ORDER BY l.customer_id, l.net DESC
),
crossed AS (
  SELECT l.customer_id, MIN(l.created_at) AS crossed_at
  FROM lines l JOIN first_cat c USING (customer_id)
  WHERE l.category <> c.category
  GROUP BY l.customer_id
),
per AS (
  SELECT f.customer_id, f.first_at, x.crossed_at,
         SUM(l.net) FILTER (WHERE l.created_at < f.first_at + INTERVAL '180 days') AS earl
         SUM(l.net) FILTER (WHERE l.created_at >= f.first_at + INTERVAL '365 days'
                            AND l.created_at <  f.first_at + INTERVAL '730 days') AS out
  FROM firsts f
  JOIN lines l USING (customer_id)
  LEFT JOIN crossed x USING (customer_id)
  WHERE f.first_at < CURRENT_DATE - INTERVAL '730 days'
  GROUP BY f.customer_id, f.first_at, x.crossed_at
),
grouped AS (
  SELECT *, CASE
    WHEN crossed_at IS NULL OR crossed_at >= first_at + INTERVAL '730 days' THEN 'single'
    WHEN crossed_at >= first_at + INTERVAL '180 days'
     AND crossed_at <  first_at + INTERVAL '365 days' THEN 'multi'
  END AS grp
  FROM per
)
SELECT grp, COUNT(*) AS customers,
       AVG(COALESCE(early, 0))   AS early_spend,     -- days 0 to 179
       AVG(COALESCE(outcome, 0)) AS outcome_spend    -- days 365 to 729
FROM grouped
WHERE grp IS NOT NULL
GROUP BY grp;
```

Customers who crossed in their first 180 days, or in the outcome year, are left out, so both groups' early windows are clean. The four averages go into the chapter 7 calculator. Syntax is Postgres.

Contribution per customer

```
-- last 12 months. order_contribution: one row per order, with customer_id,
-- created_at, categories (array), and contribution = revenue after discounts
-- and refunds, minus product, fulfillment, shipping, payment and return costs.
SELECT c.customer_id,
       (SELECT COUNT(DISTINCT cat)
          FROM order_contribution c2, unnest(c2.categories) AS cat
         WHERE c2.customer_id = c.customer_id
           AND c2.created_at >= CURRENT_DATE - INTERVAL '12 months') AS categories,
       SUM(c.contribution)
         - COALESCE(MAX(t.tickets), 0) * :cost_per_ticket AS contribution
FROM order_contribution c
LEFT JOIN (SELECT customer_id, COUNT(*) AS tickets FROM support_tickets
           WHERE created_at >= CURRENT_DATE - INTERVAL '12 months'
           GROUP BY customer_id) t USING (customer_id)
WHERE c.created_at >= CURRENT_DATE - INTERVAL '12 months'
GROUP BY c.customer_id;
```

Wrap it to count customers with negative contribution among those with two or more categories, and their share of all negative contribution. That's your version of Shah and colleagues' 10% to 35% and 39% to 88%.

The holdout readout

```
-- flow_assignments: customer_id, arm ('treat' or 'holdout'), qualified_at
WITH w AS (
  SELECT a.customer_id, a.arm,
         BOOL_OR('cold_brew' = ANY(c.categories)) AS bought_new,
         COALESCE(SUM(c.contribution), 0)        AS contribution
  FROM flow_assignments a
  LEFT JOIN order_contribution c
    ON c.customer_id = a.customer_id
   AND c.created_at >= a.qualified_at
   AND c.created_at <  a.qualified_at + INTERVAL '90 days'
  WHERE a.qualified_at < CURRENT_DATE - INTERVAL '90 days'
  GROUP BY a.customer_id, a.arm
```

```
)
SELECT arm, COUNT(*) AS customers,
       AVG(COALESCE(bought_new, false)::int) AS bought_new_category,
       AVG(contribution)                     AS contribution_per_customer
FROM w GROUP BY arm;
```

Count every assigned customer, including those who never opened a message. Comparing openers with the holdout brings the selection problem back.

APPENDIX B

TEMPLATES

Six forms and messages. Copy them into whatever your team already uses, and have counsel review anything that goes to customers.

The share-of-wallet survey

```
SEND TO   Active customers (bought in the last 12 months). Aim for 300+ answers.
Q1  In the last 12 months, about how much did you spend on [category],
    from any brand or store? ($ amount, or ranges)
Q2  Which brands of [category] did you buy in that time? (list, with "other")
Q3  Rank the brands you picked, from the one you'd choose first.
OPTIONAL
Q4  For the brand you ranked first: what does it do better than us?
JOIN     Answers to customer_id, then to 12 months of orders.
```

The fit survey

```
SHOW   One line per candidate: "[Brand] is thinking about making [product]."
ASK, 1 TO 7:
Q1  How well does this fit what you know about [Brand]?
Q2  How good do you think [Brand] would be at making it?
Q3  How likely would you be to buy it from [Brand]?
Q4  Do you buy [product] today? From whom? (free text)
READ   Rank candidates against each other. Q4 feeds "shared customer."
```

The waitlist email

```
SUBJECT   Something New From Us, and You're First
PREVIEW   before anyone else sees it
BODY
  Hi [first name],
  You've trusted us with your [hero product]. We've been working on
  [new product], because [the one-sentence proof it borrows from the hero].
  We're making a small first batch, and customers on the waitlist get
  it first, before we announce it anywhere else.
  [Join the waitlist]
  No payment now. We'll email you when it's ready.
  [Signature]
FOOTER    [Company legal name, postal address]
          You're receiving this because you bought from [Brand].
          [Unsubscribe] | [Email preferences]
```

The waitlist text

```
SEND ONLY TO subscribers who agreed to receive marketing texts.
[Brand]: we're making [new product] in a small first batch. Customers get
first access before anyone else. Join the waitlist: [link]
Reply STOP to opt out.
```

The launch brief

```
CANDIDATE            product, price, contribution margin:
STEPS FROM CORE      customer / occasion / supply chain / proof, 0 to 3 each:
```

PROOF IT BORROWS	one sentence:
HEADROOM COMPARED	core gain from one rank up ($/yr) vs this plan ($/yr):
BREAK-EVEN	share of active customers who must buy in year one:
WAITLIST	sign-up rate by segment:
FIRST RUN	units, sized to the waitlist, not the plan:
LAUNCH PRICE	full price. Early access instead of a discount.
REPEAT BAR	[x]% of first buyers reorder by [date]
KILL RULE	below the repeat bar, or contribution per buyer after returns under $[y], by [date]: stop reordering and sell through.
HOLDOUT	[x]% of eligible customers get no launch messages
OWNER	name, and the date the kill rule is read:

The partner brief

PARTNER	brand, product, why our customers use it with ours:
SCORE	customer / occasion / proof, from our customer's side:
THEIR CUSTOMERS	how much they overlap with ours (their estimate):
FORM	recommend / co-market / co-branded edition / resell
EACH SIDE SENDS	to its own list only. No list swaps or data sharing without counsel's review.
DISCLOSURE	any commission or payment disclosed clearly wherever we recommend them.
TEST	[x]% holdout from our side; read contribution per customer at 60 days.
EXIT	notice period, and how we'd respond to their worst-case failure:

APPENDIX C

SOURCES

Every external source, by chapter. Web sources were read in September 2026.

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THE NEXT CATEGORY

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