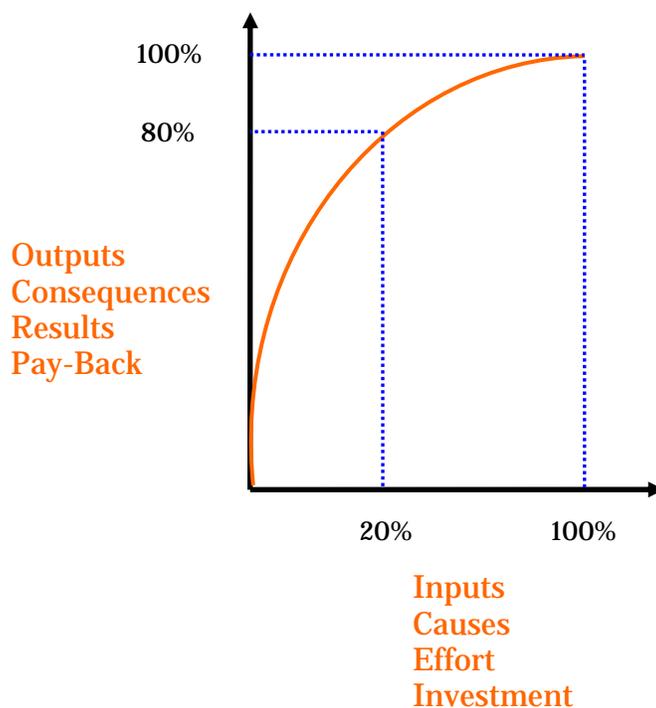


The Pareto Principle In Action



If you immediately understand the message in this graph, then you probably use its principle in some aspect of your life. Even if you do, or if you are still trying to grasp the concept, then please read on and it will become glaringly apparent why its logic is **critically important** to your business and, quite possibly, to your life outside the office.

Introduction

As far as we can tell, everyone wants to be successful. Yet we know that everyone has a different understanding of what success should be. That's wonderful! The last thing the world needs is everyone trying to chase the same goals. **This, however, is not the point of the article.** Instead, we will be discussing how you reach whatever vision of success you have in mind.

Imagine yourself at the end of a very long and rewarding life. What is the thing you are going to reflect on as having the most importance? Will it be the people who touched you like your children, your spouse, family, colleagues, or close friends? Will it be your career achievements? Will it be the major events that you experienced? It may be some

or all of these things. Yet one thing is quite certain: it will not be every relationship, project, client, or event.

Even though everything or everyone you come in contact with makes up the whole of your life, *you already know* that it will be a precious few people and events that will truly bring meaning to your life. We know this, but somehow we let all of life's little things come between us and those people and events. We might spend an extra 30 minutes staying late at work rather than spending that time with our spouse or children. How much value does that extra 30 minutes at work really add? Or to think of it another way: "Were there 30 minutes during my day that I could have **eliminated** so that I did not have to stay late at work? When you begin to think from this perspective, maybe then you might begin to understand the power of the above graph.

The Pareto Principle

In 1897, Vilfredo Pareto, an Italian economist, observed that the distribution of wealth was unequal within every country. That is, 5% of the population might own 50% of the wealth, 10% of the population might have 65% and 20% might own 80%. While this is not very remarkable (we see it all the time), what Pareto discovered was that this pattern repeated itself in almost every country he examined. Consequently, he concluded that there was a predictable mathematical relationship at work that determined the distribution of wealth: in short, 20% of the population would hold 80% of the wealth. Certainly, there are many political and social ramifications of this finding. *But again, this is not the point of the article.*

Since Pareto, many other academics have observed this phenomenon in other aspects of life. They have found generally that 80% of the results of something usually come from 20% of the efforts. To clarify, it is neither the first 20% nor the last 20% of efforts which produces the 80% of results, but rather it is distributed among all the effort. If we could easily identify the 20%, we would probably try to concentrate on it and eliminate the inefficient 80%. The dilemma, of course, is that we can't quite put our finger on those high-valued activities that create the biggest payoff.

By the way, let's not get hung up on the numbers. It could be that in some cases 70% of the outcomes come from 30% of the effort, and in other cases the split could be 90:10. What is important to show is that it is **almost never** a 50/50 split (i.e. 50% of the

inputs return 50% of the outputs). If that were so, then every minute of the day would be as productive as every other minute. **And we know this is never the case.**

Rather than boring you with all the research leading up to all of this, let's just discuss some of the things you can observe in your own life.

- 20% of your investment portfolio returns around 80% of capital gains while the other 80% of our investments make up only 20% of your gains (*if you could just predict those producers, you could have retired by now*)
- 20% of your effort at work results in 80% of your achievement while the other 80% makes up only 20% of your achievement (*knowing which effort will be rewarded would let you go home early*)
- 20% of your sales leads return 80% of your future revenue while the other 80% lead to only 20% of revenue (*concentrating on those 20% would save you dramatically, if you knew who they were*)
- 20% of your employees' effort results in 80% of the output while 80% of their effort only produces 20% of the output (*if you don't believe this, just watch them for a few days*)
- 20% of your employees produce 80% of the value-added work while 80% of your employees produce only 20% of the value-added work (*we call these people "stars," and they do not usually stick around when they realize that their pay is not commensurate*)
- 20% of your employees will create 80% of the unnecessary work while 80% will create only 20% of the unnecessary work (*just go to a big corporation and look to see how many committee meetings there are*)
- 20% of your customers make up 80% of your complaints while the other 80% only make up 20% of the complaints (*is there something in common with these people and can you do something quickly to resolve the matter?*)
- 20% of your time on the phone is spent with 80% of your customers while the other 80% is only spent with 20% of your customers (*are these the right 20% you want to spend time with?*)
- 20% of your business relationships help your business move forward, while the other 80% hold you back—and some of the 80% might actually be toxic relationships.

Conclusion

At some time we have probably all heard, “*The devil is in the details.*” And, “*Don’t sweat the small stuff.*” These are not mutually exclusive statements. Execution will always be important. In your own work, a simple error can create loads of pain and hours wasted. What the 80/20 principle tells us is that we need to concentrate our execution on those aspects which are going to have the greatest payoff. It does not tell us to use 80% effort in everything we do.

Our aim in this article is to get you thinking about your business, your customers, and where you want your business to end up. At this point, you should be thinking “Can I apply an 80/20 methodology to some aspect of my business (and life) which would add significant value?” This is essentially what the best consultants do. Clients hire consultants to work on the most critical, or highly-leveraged, parts of the business. Oftentimes business people don’t know where the leverage is located, and it helps to get an outside perspective. Whether you are a business executive or a consultant, your job is to place the focus on the most critically important areas--and then maintain that focus long enough to get sustained results.

We truly believe that if people stop once in a while to examine what is really important, they can begin to make decisions that will lead them down the road of success. We hope you’ll do this. Feel free to contact us with any questions or ideas.