

THE EXTRA POINT

BY JERRY ROBERTS



1255 How the 80:20 Rule Can Help Your Business

It's one of the better known so-called rules of business. You've likely used it in your job or referred to it in some way. If not, no doubt you've listened as somebody else did. I'm Jerry Roberts and you know what, I'll lay 4-to-1 odds that you were interested in what you heard. We'll get into it, next on The Extra Point.

Were you saying to yourself, "Jerry must be pretty sure about whatever it is he's referring to...I mean, he gave 4-to-1 odds." Absolutely, and 4-to-1 is another way to express 80-20, for you math majors.

I am speaking of the 80-20 principle, also known as the *Pareto Principle*, first introduced by Vilfredo Pareto in 1906. If it's a new thing for you, what Pareto was stating is that 80% of a certain result comes from 20% of an action or set of actions.

In his book, *The 80/20 Principle: The secret to success by achieving more with less*, author Richard Koch gives numerous examples of how Pareto's formula still makes sense today.

A manager charged with turning around a troubled company may find that 80% of the money saved is brought from 20% of the tactics and strategies employed to save the business.

The sales manager gets a detailed report which shows that 80% of company sales comes from 20% of its customers. Is that information valuable?

It would tell me a couple of things. One, I want to spend time cultivating a deeper relationship with those customers to make it more difficult for a competitor to steal them away.

Two, they have more experience with our products, and I want to analyze that experience to see if I can improve it; and learn key factors that might encourage other customers to use us more, and new prospects to give us a try.

What if I found out that 80% of those sales are being written by just 20% of our sales reps? Just like the other example, digging into the numbers will allow me to discover what these winning reps are doing that is different from the 80% who are not performing as well.

Can I get them some advanced training to help them soar even higher? Maybe I'd want to focus on the 80% of the reps who bring in far less, and devise a program to improve their production.

The 80-20 principle doesn't guarantee that exactly 80% of results come from exactly 20% of actions. The purpose of it is to signal the factors that matter, help you to prioritize what's important, and to give you a direction based on results.

Another example is time optimization. Roughly 80% of our results indeed come from 20% of the time put in. The most productive people will they'll tell you they aren't productive all the time. They try a lot of things which they hope will save them minutes and hours. Some save a little bit of time, some save nothing, and a few are total home runs, saving them a major chunk of time.

What if the Guam Police discovered that 80% of their traffic tickets were being written by 20% of its officers? What would they be able to do with that information?

What does Pareto's principle mean to you? What is it that is getting you 80% of a specific benefit in return for 20% of a specific action?

That's the Extra Point. Be responsible and make something good happen today. For 93.3 and the Ray Gibson Show, I'm Jerry Roberts.

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