

## **Incorporating an 80/20 View Can Increase Profitability**

By Carmen Munson

*As published in the Ithaca Business Journal 10/17/08*

Women In Business

What if you discovered that 20% of your efforts account for 80% of your results? How about if you took it further and realized that 20% of your products are responsible for 80% of your profits? On a different level, wherever you go, 20% of clouds account for 80% of rainfall. Welcome to Pareto's Law, introduced in 1897 by an Italian economist, Vilfredo Pareto. Pareto originally developed his law to explain the distribution of wealth that he had observed in Italy in the late 1800s.

Pareto soon discovered that his principle was widely applicable to a variety of topics. It is also known as the "80/20 Rule," or the "Principle of Least Effort." My purpose is not to prove its validity to you, but to encourage you to think outside of the box. Understanding this law can help your business and personal life. Are you ready to learn how the minority of your actions are much more effective than the vast majority?

As Richard Koch states in his book, *The 80/20 Principle: The Secret To Achieving More With Less*, one reason the principle is so important is because it is counterintuitive. We are so accustomed to believing that the harder we work, the more we will achieve, and we act as though all of our efforts are equal. However, the 80/20 Rule challenges this by stating that a few of our actions are much more valuable than all of the rest. As author Tim Ferris asks in his book, *The Four Hour Work Week*, "If you only had a few hours to work each day or week, what are the high return activities that you should be doing?"

Koch describes how IBM became one of the earliest businesses to apply the 80/20 rule. IBM discovered that 80% of a computer's time is spent executing about 20% of the programmer's code; this helped them realize they had to make that 20% of code as easily accessible as possible. IBM enhanced their business success by developing the appropriate technology to take advantage of this discovery. Computer technology has continued to apply the 80/20 rule as new technology and products are developed.

Successfully applying the 80/20 rule to your business requires increasing your personal awareness, being very honest with yourself, and being willing to make some significant changes. All you have to do is determine the few sources that result in 80% of your profits, job satisfaction, and happiness!

Start by asking yourself what your greatest strengths are, and whether or not you are using them each and every day. According to the rule, the time spent applying your true talents will result in much greater profit than spending your time at tasks at which you are only mediocre. Keep in mind that "profit" is what is valuable to you.

Koch suggests creating a time revolution: begin by increasing your time awareness by tracking your day in 15-minute intervals. At the end of each day, determine which of the activities resulted in the biggest profit or other measure of return. Highlight high profit activities, and make them your priority. When scheduling your high return tasks, make sure they have clear and concise deadlines. In addition, it's usually a good idea to plan

these tasks early in your schedule. For example, let's say that when you make follow-up phone calls to your best customers, you usually end up with a sale or a new lead. You want to make sure those calls don't become overshadowed by other tasks that are less important and not as profitable.

On the flip side, identify which activities are resulting in a very low return on time and resources. Can you simply eliminate all or some of these? Perhaps you can delegate them to someone else while you focus on more profitable actions.

Review a list of all of your customers and compare the revenue they generate. Many of us pride ourselves on providing exceptional customer service to all of our customers. According to the 80/20 rule, you should treat your top customers especially well. Your top customers are golden to your business and deserve an extra proportion of your time and marketing. Don't spend all your time trying to reach customers you don't have, and make sure you have fully catered to the best customers you already have.

I challenge you to try on the 80/20 lens while observing actions within your business. Don't be surprised if you find that many of the work behaviors you learned over time are due for a serious change. The 80/20 Rule can help you accomplish more with less, leading to increased business and life satisfaction.