

Pareto and the 80-20 Rule

Vilfredo Pareto - In the early 1900s, Italian sociologist, economist and philosopher, Vilfredo Pareto made several important contributions particularly in the study of income distribution and in the analysis of individuals' choices. Perhaps best known for the Pareto principle (also known as the 80-20 rule, the separation of the vital few from the trivial many) states that for many events **80% of the effects come from 20% of the causes**. At this time in Italy, 80% of income belonged to 20% of the population.

So then, thinking about this principle in your business today...

- Do 80% of your sales come from 20% of your clients?
- Do 80% of your sales come from 20% of your sales team?
- Do 80% of your decisions in meetings come from 20% of your time?
- Do 80% of customer complaints relate to the same 20% of your services/products
- And your ROI on advertising - would this also be approximately 20% of your spend producing 80% of your campaign's results? If only you knew which 20%!!



You get the idea. So what?

Let's take the sales source 20% concept...

20% of your clients produce 80% of your sales. Let's say you have four levels of client/customer: Your "VIPs" (20% approx), your next level down, your "Rising Stars", then your "Don't Knows" and lastly "those you'd rather not have as customers"! Can you put an approximate % on the other three sectors?

1. Are you treating your top 20% tier as VIP customers and really managing their every expectation perfectly and ideally anticipating their next request? What makes them your VIPs - really important to know...Analyse

- what type of business are they?
- how did they find you/you them?
- what are their personality traits?
- how do they respond to you?
- what do they pay you?
- Really analyse this and then marry up the common traits across all your VIP customers/clients and then the next question is: How can you attract others like them?

2. What about your "Rising Stars"? Based on the information you have now gathered from your VIP clients, what do you have to do to convert them? What effect would that have on your business if they were to become in your Top Tier group?

3. What about your "Don't Knows" - those ones who buy from time to time but you've never spent much time/effort on finding out their needs, why they buy from you, what they buy from others etc.... What do you have to do to make them into your Rising Stars? What impact would that have on your business?

4. And then those who buy irregularly, not very much but want "the earth" included with the deal, but then don't want to pay for it and/or keep you waiting for payment. You need to recognize these customers and ensure you and your colleagues are not spending 80% of your time in managing them.

There are only three ways to grow your business... Apart from finding new customers which is expensive, if you could grow your clients/ customer base to buy more (cross sell and upsell) and to buy more often, you'd have amazing results. Using the Pareto model, you can analyse your customers and then really concentrate on your 'stars' and grow with them.

Helpful? I hope so. Analyse across the other sectors of your business too, as time permits - and to your home life as well. And, next time you/the lady in your life has 'nothing to wear' or 'no shoes' then we can smile and think "Pareto"!!

Debbie Newman
Armstrong Beech Marketing
debbie@armstrongbeech.co.uk

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Wiltshire BA15 2AX
t 01225 869 240
e info@armstrongbeech.co.uk
www.armstrongbeech.co.uk
links to LinkedIn and Twitter from website