



THE VITAL FEW

Back in the 19th century, an Italian economist quantified the general relationship between a minority of producers and a majority of output. Sound familiar? The simplified version of Vilfredo Pareto's ratio, known as the 80/20 rule or the Pareto Principle, says that in most cases, 80% of production comes from 20% of producers.

Quality guru J.M. Juran referred to Pareto's principle as "The Vital Few and the Trivial Many". If you are running a company, the 80/20 rule has powerful implications for every area of your business.

Pareto's postulate says 20% of your effort will generate 80% of your results. There is also a corollary: 20% of your results absorb 80% of your resources or efforts.

The game is knowing which is the right 20% - distinguishing the Vital Few from The Trivial Many. 20% of your customers yield 80% of your revenues, and 20% of your customers yield 80% of your profit. But not necessarily the same 20%.

Your sales force (even if it's just you) will intuitively spend more time with the top 20% customers, but will it be the right 20%? There is also likely to be a top 20% of customer types, a top 20% of territories, and a top 20% of distributors.

Which customers get the most service? Your service team spends 80% of its time on 20% of the customers - although they may not be the most profitable 20%.

Focus your attention on the Vital Few customers. Rank your customers in order - find out who are the top 20% - in profits, not sales - and focus your sales and service attention on them. Determine which 20% are using 80% of your resources. Are they your top profit generators? If not, charge them for the resources you shower on them, or discontinue services to that tier.

Salesperson productivity also fits the 80/20 rule. 20% of your sales force produces 80% of your sales. Should you lavish equal resources on all your salespeople?

Invent Ways to take your 20% and make them even more effective. An assistant or a dedicated account team could be concentrated around your top performers to increase their productivity even more.

All prospects are not created equal. 20% of your prospects have the potential for 80% of your future profits. Are your salespeople spending their time proportionately? Have them do an opportunity analysis to highlight the Vital Few.

Market segmentation: If you have multiple products, services, geographies, customer tiers, etc., 80% of your profits will be come from 20% of the segments. Fully allocate your costs and rank your segments in profit order. Consider dropping, selling or trading less profitable ones.

Production: You may find that 80% of your products or services are created by 20% of your people, 80% of your problems are fixed by 20% of your people, team, and, 80% of your problems probably come from 20% of people. All a different 20%! Wouldn't it be helpful to know which 20% is doing what?

Quality: 80% of your defects are found in 20% of your product units. Also, 80% of the defects come from 20% of the defect types. Spend lots of energy figuring out how to prevent those 20% and you've made huge gains in quality.

Employee retention: Have you identified your Vital Few? Most of us have, so why are we treating all employees the same way. Besides better bonuses, keep the top 20% on board with non-monetary rewards like offices, training bonuses, better tools, assistants, vacations. These are just some of the rewards (consider them investments) justified by greater productivity - which leverage that productivity even further.

80/20 works wonders for time management. Odds are, 80% of your time is spent on Trivial Many activities. Do the 80/20 analysis and discover which executive activities produce the most value for your company. Refocus your time and place your attention on the Vital Few. Delegate the Trivial Many, or drop them altogether.

Are you getting the hang of this? 80/20 analysis can be applied to every aspect of your company. Look for things with multiple inputs and multiple outputs. We've touched on sales, marketing, quality, compensation, and executive effectiveness. How else could 80/20 help you produce extraordinary results?

To get a copy of our 80/20 Sorting Worksheet visit <http://www.paullemborg.com/toolsandtips.html>. The worksheet is useful for analyzing sales, markets, personnel, strategies, etc.