

Understanding Pareto's Principle - The 80-20 Rule

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By F. John Reh

In 1906, Italian economist Vilfredo Pareto created a mathematical formula to describe the unequal distribution of wealth in his country. Pareto observed that twenty percent of the people owned eighty percent of the wealth. In the late 1940s, quality guru, Dr. Joseph M. Juran, attributed the 80/20 Rule to Pareto, calling it Pareto's Principle. Pareto's Principle or Pareto's Law is a useful tool to help you prioritize and manage the work in your life.

This article offers an overview of the rule and examples how it can help you improve your personal and professional productivity and effectiveness.

What It Means

The 80/20 Rule means that in any situation, 20 percent of the inputs or activities are responsible for 80 percent of the outcomes or results. In Pareto's case, it meant 20 percent of the people owned 80 percent of the wealth. In Juran's initial work applying the 80/20 rule to quality studies, he identified 20 percent of the defects causing 80 percent of the problems. Project Managers know that 20 percent of the work (the first 10 percent and the last 10 percent) consume 80 percent of the time and resources.

Other examples you may have encountered:

- 80% of our revenues are generated by 20% of our customers.
- 80% of our complaints come from 20% of our customers.
- 80% of our quality issues occur with 20% of our products.

Or:

- 20% of our contributors provide 80% of our funding.
- 20% of our employees are responsible for 80% of sick days.
- 20% of my ideas generate 80% of my traffic on my blog.

There are a nearly unlimited number of examples that we tend to apply the 80/20 rule to in our personal and working lives. Most of the time, we are referencing Pareto's Rule without applying rigorous mathematical analysis to the situation.

We generalize about this 80/20 metric, but even with this sloppy math, the ratio is uncannily common in our world.

7 Areas the 80/20 Rule Can Help Your Productivity:

- 1. If you scrutinize the items on your "To Do" list, chances are just a few of the items**

- are tied to important issues.** While we may take satisfaction in crossing a large number of the smaller issues off our task lists, the 80/20 rule suggests we should focus on the few, larger items that will generate the most significant results. The list might not grow much shorter, but you will be practicing effective prioritization.
2. **In assessing risks for an upcoming project, not every risk carries equal significance.** Select the top risks that pose the highest potential for damage (given the probability of occurrence) and focus your monitoring and risk planning activities on those items. Don't ignore the others, however, distribute your focus proportionately.
 3. **As a sales representative, work hard to understand the attributes of the 20 percent of your customers that make up the majority of your revenues** and invest your prospecting time on identifying and qualifying similar customers.
 4. Regularly evaluate the **80 percent of your customers that generate approximately 20 percent of your business and identify opportunities to shed those customers for those that drive better results.** Some managers and firms actively cull their customer listings every few years, effectively firing the bottom performing customers.
1. If you work in customer support or a call center, look for the 80/20 distribution where 80 percent of your customer calls or support issues are attributable to either 20 percent of your offerings or 20 percent of your total number of customers. **For the offerings generating all of the calls, focus on root cause analysis to identify quality or documentation issues, and then take corrective action.** For the high call, volume customers strive to understand the reason for their calls and offer alternative methods of obtaining answers.
 2. **Entrepreneurs, soloists, and independent professionals should evaluate their workloads and assess whether the gross majority of their time is spent chasing small value activities,** including administrative work that is easily and inexpensively outsourced.
 3. When evaluating your mid-year progress on your goals, **focus on the few goals or activities that are most critical to your development or success.** Similar to the task list, not all duties and goals are created equal.

Practical Limits to the 80/20 Rule:

As we've explored, the 80/20 Rule has many applications in our work and personal lives. However, there are opportunities to misapply this tool and make critical mistakes.

- **You should not focus on just the 20 percent of top performers on your team at the expense of the other 80 percent.** You are accountable for increasing the number of top performers as well as assessing and potentially eliminating those who are consistently poor performers.
- The 80/20 rule might suggest reducing the level of diversification you strive for with investments. **Careful attention must be paid to your overall portfolio mix and adjustments made if only 20 percent of your investments are driving 80 percent of the results.**
- While 20 percent of the time invested in a project through planning and execution might

generate the majority of the results or progress, **you cannot afford to ignore the details of the initiative.**

The Bottom Line:

Pareto's Principle or the 80/20 Rule is a useful construct when analyzing our efforts and outcomes. It is priceless when applied to task or goal lists, and it provides a useful analytical framework for many problem situations. Use it liberally, but don't accept it as an absolute or you are likely to misstep.

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Updated by [Art Petty](#)