

First Business Seminar Series

The 80/20 Rule for Life and Business

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February 2, 2011

YOUR SUCCESS COMES FIRST



80/20 Rule

Vilfredo Pareto (1848-1923)
Italian Economist

Distribution of world GDP, 1989

<u>Quintile of Population</u>	<u>Income</u>
Richest 20%	82.7%
Second 20%	11.7%
Third 20%	2.3%
Fourth 20%	1.4%
Poorest 20%	1.2%

SOURCE: United Nations Development Program. 1992 Human Development

80/20 Principle

What can it do for you?

Case: Illinois Tool Works

\$18 Billion multinational

900 Separate Business Units

Approx. 50 acquisitions per year

Approx. 2 divestitures per year

19% annualized shareholder returns over past
25 years

80/20 is a “Guiding Principle”

The Magic Formula

$$A = .8(x) + .2(y)$$

$$A = .8(x) + .2(y)$$

$$A = .8(3) + .2(3)$$

$$A = 2.4 + .6$$

$$A = 3$$

$$A = .8(x) + .2(y)$$

$$A = .8(.5) + .2(5)$$

$$A = .40 + 1.0$$

$$A = 1.4$$

Personal Life - Critical Few

- Succeed Financially
- Excel in School
- Rule of 72
- Rule of 20x

Critical few things done spectacularly

How does 80/20 apply to Business?

Need to identify the critical few

Quartile Report

<u>Quartile</u>	<u>Sales</u>	<u>Effort</u>	<u>Profit</u>
Q1	89%		
Q2	7%		
Q3	3%		
Q4	1%		

Quartile Report

<u>Quartile</u>	<u>Sales</u>	<u>Effort</u>	<u>Profit</u>
Q1	89%	25%	
Q2	7%	25%	
Q3	3%	25%	
Q4	1%	25%	

Quartile Report

<u>Quartile</u>	<u>Sales</u>	<u>Effort</u>	<u>Profit</u>
Q1	89%	25%	+++
Q2	7%	25%	+
Q3	3%	25%	-
Q4	1%	25%	---

Objections?

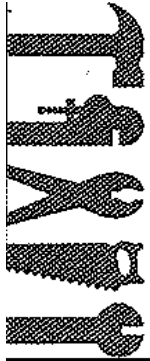
- All eggs in one basket (concentration)
- Small customers become big customers
- Bigger margins on small customers

Yes, but...

<u>Quartile</u>	<u>Sales</u>	<u>Effort</u>	<u>Profit</u>
Q1	89%	25%	+++
Q2	7%	25%	+
Q3	3%	25%	-
Q4	1%	25%	---

Case: West Bend

- Losing \$\$\$
- 75% of customers bought <\$1,000/year
- 2% revenue from 75% of customers



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**NO JOB TOO SMALL
OR TOO LARGE**



Land's End

“We don’t want most of the business, we want it all.”

Ernest Gallo,
E&J Gallo Winery

80/20 your Business

Barriers to taking action

- Difficult to change a culture
- People don't like numbers
- Execution is hard and requires discipline and accountability

In God we trust,
all others must bring
data.

Four Steps to 8020

1. Weed the Garden
2. Separate Tomatoes from Pumpkins
3. Give everything only the water it needs
4. Farm efficiently

Finally ... the Ultimate 8020 ... YOUR FAMILY!!!

- The Blue Phone
- MIST
- Time