

Improve your Profit Focus

Apply the 80-20 rule in your life and business.

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The Pareto principle (also known as the 80-20 rule, the law of the vital few, and the principle of factor scarcity) states that, for many events, roughly 80% of the effects come from 20% of the causes.

We all know of or have heard of the 80 – 20 rule and we glibly bandy it about, yet we seldom apply the principle in our own lives or business. Look at the following and see if you recognise any of them, then correct them:

- 80% of sales/ profits are generated by 20% of products

Why then do we sell the other products? Do we really need them? Maybe we do but have you checked? Do you know the profitability of each product you sell or service you provide? What about the hidden costs of holding stock such as storage, interest paid and stock obsolescence?

- 80% of sales come from 20% of your clients

Do you know who the 20% of clients that generate 80% of sales and profits are? Are those 20% really profitable? If you don't develop relationships with your key clients maybe a competitor will. Have you asked these key clients what is important to them instead of you assuming (rightly or wrongly) what is important? When last did you visit your clients? The oft heard response is, "but I don't have the time!" you don't have to visit all of them just 20%. If you had a hundred clients and visited 2 per week you would see 100 per year and thus visit each key client 5 times a year (20% of 100 clients is 20 key clients. 2 client visits per week x 50 weeks = 100 visits. 100 visits divided by 20 key clients = 5 visits each).

- 80% of complaints come from 20% of clients.

Are these 20% the same 20% that generate 80% of sales/ profit or are they from the 80% that generate 20% of sales/ profit? Do you need them?

- With tasks or actions often something 80% complete today is worth much more than something 100% complete (Is it ever actually 100%??). Does the extra 20% make a difference? Is the opportunity cost of the extra 20% worthwhile? Probably not, but that does not excuse you from not running the "spell check". A journey starts with a single step someone once said. Then why don't you start? Avoid paralysis by analysis and get started when 80% ready, the remaining 20% won't make a difference or you can make it up or learn it along the way.
- 80% of production problems come from 20% of the operators/ machines.

Why don't we train them or fix them?

- 80% of your raw materials and products are sourced from 20% of your suppliers.

Have you developed relationships with these suppliers? Have you told them what is important to you? Remember you are there client. Are these relationships strong so that they contribute and add value to your company? Are these suppliers paid punctually? How important are you to your supplier?

- 20% of a company's stock is critical to its survival.

Do you know which stock makes up the 20%?

- 80% of our time is spent doing things of little value or things we dislike.

Why not employ someone else to do them? Someone who enjoys these activities. We are all different and need different things to blow our hair back. Do what blows your hair back, if you have some.

- 80% of the work is done by 20% of your staff.

Do you really need the rest? What about outsourcing these functions?

80% of the earnings are paid to 20% of the staff. Make sure you are one of them.



