80/20 Problem Solving

Rule Defined

While the exact figures in 80/20 calculations rarely ever match the famous 80/20 ratio, the principle underlying the equation usually proves sound:

* The majority of profit comes from a minority of sales.
* The majority of work is performed by a minority of employees.
* The majority of consumer complaints come from a minority of the total customer base.

Knowing this, how can you apply the 80/20 rule to your business in order to boost your productivity, effectiveness and bottom line?  Consider it a litmus test you can use to prioritize tasks, examine current systems and pare down your business operations as needed. Below you’ll find several ways you can use the 80/20 rule in your business to make the most of your time, money and effort.

**Controlling Expenses**

Expenses can easily get out of hand—especially if you do not know much about the in-depth financial operations of your business.  In these cases, the 80/20 rule can help you to curtail unnecessary expenses.

How?  Interestingly enough, around 80 percent (or so) of all the expenses accrued by any business are typically related to just 20 percent (or so) of the line items.  By focusing on this “Top 20” and finding ways to effectively manage or even reduce these expenses, you can make a tremendous impact on your overall bottom line*—*with a minimal investment of time and effort.

**Forecasting Business**

Plotting the future of your business is another time-consuming area that can easily lead unsuspecting business owners down a slippery slope.  Most plot future sales with years’ worth of historical data, predictions for industry-wide business trends and possibly even nationwide or global trends thrown in for good measure. But while you can’t throw out all of that data and expect to get an accurate forecast, you can cut down on your overall inputs by keeping in mind that—in general*—*20% of your business activities, inventory and marketing are responsible for 80% of your past, current and future revenue.

By zeroing in on the factors that might affect your core 20%, you can get a general picture of your business’s outlook that may even be detailed enough to carry you through to a complete forecast.

**Managing Employees**

Managing employees is incredibly time consuming.  In fact, one study found that 57 percent of all managerial hours are dedicated to dealing with “difficult” staff members. Using the 80/20 rule to evaluate your team can significantly improve the company’s efficiency, as well as your own personal time management. If 20% of your employees produce 80% of your results, you need to figure out who those 20% are and reward them appropriately. However, that’s only one side of the coin.  That underperforming 80 percent of your employees need some attention as well, given that efficient teams will have a much more agreeable percentage. The goal is to have more than 80 percent of the employees producing close to 100 percent of the output.  Most of these 80% of underperforming can be retrained, educated or reformed—though some, unfortunately, are just dead weight that needs to be trimmed.

**Sales**

If 20% of your products or services are responsible for 80% of your sales, then those 20% should be given priority*—*both in marketing and in-store placement*—*above the others.  This will only increase their movement further, padding your company’s profit margins. Be aware, though, that your top 20% products may already be at peak performance.  If this is the case, the remaining 80% of your products and services may need a little updating.  Perhaps they just need to be marketed more using better strategies, or maybe they need to be redesigned or even replaced in order to join your collection of top earners.

**Customer Relations**

Following the 80/20 rule, your top 20% of customers are going to be responsible for the vast majority of your sales.  You should reward that select group and make the most of your networking/marketing time/money by targeting those few aggressively. You cannot afford to completely ignore the lower 80% of your customers*—*that’s a recipe for disaster. However, you should constantly be looking for those specific individuals or companies that you think can be brought into your elite “20%.” This should be the goal.

On the other hand, if some of your customers are becoming more trouble than they’re worth, it might be time to trim the dead wood.  The 80/20 rule applies here as well.  In general, 80% of your total complaints come from just 20% of you customer base (usually even less than that).  If you’re spending all of your time and effort addressing concerns raised by these few customers, you’re wasting resources.  You could instead be grooming your other 80% of customers to make their company interactions much more positive.  Cut the cord*—*if you can.

**Focusing Your Efforts on the 80/20 Rule**

The 80/20 rule isn’t a hard and fast business law*—*there’s a lot of leeway there and your exact percentages will vary greatly.  However, as a general rule of thumb, the 80/20 principle can be extremely effective.  You can apply it to daily tasks or to the following areas as well:

* Email
* Media consumption
* Office “gossip”
* Telephone calls
* Task scheduling
* Commuting
* And much more!

The premise behind the 80/20 rule is that you should spend the most time, effort and resources on the activities, products and services that will bear the most fruit.  By identifying instances of this rule at play in your business will better prepare you to eliminate waste and, therefore, increase efficiency and profitability in the future.

80 / 20 Problem Solving System

Imagine that a supervisor has taken over a failing service center with a host of problems that need resolving. The objective is to increase overall customer satisfaction and, the supervisor decides to score each problem by the number of complaints that the center has received for each one. (In the table below, the second column shows the problem, and the third column shows the underlying causes identified in step 2, and the fourth column shows the number of complaints about each column identified in step 3.)

**80 / 20 Problem Solving Framework**

The supervisor then groups problems together (steps 4 and 5) and scores each group by the number of complaints, and organizes the list as follows:

1. Lack of training (items 5 and 6) – 51 complaints.
2. Too few service center staff (items 1 and 2) – 21 complaints.
3. Poor organization and preparation (items 3 and 4) – 6 complaints.

The supervisor will get the biggest benefits (80% improvement factor) by providing the staff with more training. Once this has been accomplished, it may be worth looking at increasing the number of staff in the call center. However, it is possible that this won't be necessary as the number of complaints may decline, and training would help people to become more productive.

We found that just six factors explained over 80% of our problem. In fact, we thought that a single one explained 38%! Clearly, starting our analysis with these most important factors would help us benefit quickly and profoundly from our problem-solving process.

**80/20 Problem Solving Framework**

