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Foreword

by Richard Koch

Author of the million-copy selling classic *The 80/20 Principle* and *The 80/20 Manager*

I'm really pleased to write this introduction to *80/20 Sales and Marketing* for three reasons.

With the exception of my own books and the astonishingly brilliant book by Tim Ferriss, *The 4-Hour Workweek*, this is the first addition to the canon of books about the 80/20 Principle (hereafter “the Principle”).

Now, why should that matter? Because as Tim has said, the Principle is “the cornerstone of results-based living.” When you realize that it is *small* causes that have *big* results, life becomes an exciting voyage of discovery. Suddenly, every day brings a liberating quest—to find the small things you can do, in very little time, with very little money or none at all, to have a big impact on the people around you.

This applies to everyone and to everyday life—a smile, a hug, a sincere thank-you, a word of advice that is just right for someone who is struggling or suffering, a practical task that takes you only 10 minutes but would take someone else an hour or forever to do—these are examples of interventions that everyone can manage.

Equally important, the Principle makes us aware that there are small things we all do that have a hugely negative impact for our friends, family, and work colleagues. Just to stop doing these small things can change lives.

Though some uses of the Principle are obvious and take almost no mental effort, other applications of the Principle take quite a lot of thought to realize in the first place. And this is where people who have devoted years of their life to thinking about the Principle can help.

Such people—starting of course with Vilfredo Pareto, the Italian economist whose research into wealth creation sparked the original discovery, but also extending to quality guru Joseph Juran and a host of people in the computer industry, notably Steve Jobs—can make a dent in the universe by thinking about applications of the Principle and then making these available to anyone who will listen to them.

Once the original thinking is done, the application of the Principle is easy.

Perry Marshall stands in that tradition. He has something original and extremely useful to say, because he has thought profoundly about the Principle and how to apply it to an area—sales and marketing—that nobody else has cornered.

Do not be deceived by the easy, bouncy style that Perry deploys. This is a person who has spent time delving deeply into the mysteries of 80/20 and come up with some original insights that are literally priceless. There is a lot of wonderful wisdom in the book you now hold.

My second reason for joy at this book is that Perry takes a hint that I originally made about the Principle—its “fractal” nature—and expands it, drawing some incredibly powerful conclusions. What does this mean?

Well, think about leaves or coastlines. A leaf has the same pattern on it whether you examine it with the naked eye from a distance, or close up, or take a magnifying glass to it. You see the lines and veins, and they look the same whatever the perspective. Similarly with a coastline—all coastlines in

the world are different, but they are all recognizably the same pattern, and this applies whether you see the coast up close or from a jet plane.

And with the 80/20 principle, the thing is that it applies all the way along the length of any distribution. So, for example, if 20 percent of roads in your area carry 80 percent of the traffic, it will still be true that if you disregard the 80 percent that carry little traffic, the 20 percent that carry most will still be subject to the Principle. Twenty percent of the top 20 percent of roads will carry 80 percent of the traffic *among the top 20 percent of roads*.

Let me say that again slowly. If 20 percent of roads carry 80 percent of traffic, roughly 20 percent of the 20 percent—that is 4 percent—of the roads will carry 80 percent of the 80 percent of traffic on those roads. In other words, 4 percent of the roads will carry 64 percent of the traffic. And so on.

To be honest, I hadn't quite grasped the implication of that until Perry's book hammered it home to me. That is, we benefit most from the Principle when we apply it at its upper reaches. If 20 percent of our time gives us 80 percent of our useful output, it's still true that a fifth of that 20 percent will contribute 80 percent of the results within that "useful" category—in other words, there are some things that take *almost zero time* that are incredibly valuable.

If we want to make the world better, we had better work out what those unbelievably leveraged activities are. Nearly always they are decisions we make and stick to.

To take another example, one of the most valuable things any businessperson can know and use is that, almost certainly, a fifth of our customers are responsible for four-fifths of your profits—or something similar. Sometimes 20 percent of core customers actually account for fully 100 percent of profits, and the rest on average are—if you analyze their true value—loss makers. *You would be better off without them*. Once you realize this, business becomes a heck of a lot simpler and easier.

But the fractal point Perry makes is that 20 percent of the 20 percent of customers are ultra-valuable, at least potentially. Four percent of the customers may account, or could account, for 64 percent of profits. If you know who these customers are and provide them with what they really

want, all you have to do is double sales to them and you have another 64 percent of revenues.

And Perry's point, as you'll see, is that very often these sales are not consummated, *simply because you don't have the very expensive products that these ultra-valuable customers really want to buy*. Sales and marketing, therefore, begins with product development—for your very best and most enthusiastic customers. This is a huge insight.

Of course, you can't charge several times as much for the same product—though Starbucks, some would say, tries hard. You have to provide equivalent value, so if a product is 10 times as expensive, it must give at least 10 times the value.

But very often, it costs you less than 10 times as much to provide that value. And it is certainly easier to grow by selling more to your existing happy customers than it is to find new customers who will love what you do.

Let me make this real by giving an example from my life—long past, thank God—as a management consultant. Around 1980, I left one great consulting firm—the Boston Consulting Group (BCG)—to join a small offshoot called Bain & Company. Bill Bain, the founder, believed strongly in the Principle. He kept telling us, “Your best new customers are your existing customers.”

Instead of pursuing new business wherever it could be found—a natural temptation for the new firm on the block—he told his people to look within their client relationships. He discovered a new and much more intensive way of consulting with a few firms at incredible depth.

Whereas the two leading consulting firms in the world at that time—BCG and McKinsey—would think a relationship that garnered \$1 million dollars a year was a good one and wouldn't try to multiply that number, Bill Bain and his partners did.

For them, if a client was being billed \$1 million, there was in most cases no reason why they couldn't be billed \$10 million or even much more—provided Bain & Company delivered the value to justify that. And that we could easily do by working with the chief executive to transform the company, using the incredibly powerful insights that strategy consultants, thanks largely to BCG, had developed.

Bill Bain reasoned that if \$1 million of consulting could deliver \$5 million of value, then \$10 million could deliver \$50 million of value, or maybe much more. For a big client, there was no artificial barrier. Though he never expressed it this way, value delivered to a client was fractal. By focusing on a few terrifically powerful causes of profit improvement, the sky was the limit, both for the client and for the consulting firm.

Now, as Perry will show you, the sky is the limit for you and your firm, if you truly understand and use the Principle, in ways he will explain.

The third reason I love this book is that it is open-ended and experimental. It will get you to open your mind and think about doing things you have never done, and about ways of doing what you are already doing in totally novel dimensions.

So that is enough from me. Get on with reading the book now. Perry's enthusiasm is infectious, and I hope you go down with a big dose of it! One thing I am sure of—if you read this book with an open mind and use your brain a bit in thinking about its most powerful points, you really can change your business and your life.

—Richard Koch
Cape Town, February 2013

Richard's new book, The 80/20 Manager, has just been published. It describes 10 ways that managers can transform their work lives and results without extraordinary effort.

Introduction

My trusted friend Ken McCarthy recommended Richard Koch's landmark book *The 80/20 Principle*. A few days later, it arrived in the mail. I took the book to my favorite hangout, Buzz Café.

I got to page 14, and my mind suddenly lit on fire. Yeah, I'd heard about 80/20 before. I knew the "Pareto Principle": How the Italian economist Vilfredo Pareto noticed that 20 percent of the people owned 80 percent of the wealth. I knew that 80 percent of your sales come from 20 percent of your customers. Up to that point I'd thought it was mildly interesting.

But suddenly I saw an entirely new and different dimension: 80/20 APPLIES TO EVERYTHING! A thousand new connections formed, connections I'd never made until that very instant.

Recognizing that I had just stumbled upon something that was absolutely huge, I broke into a cold sweat.

I jumped in my car and raced home. Fifteen minutes later I was sprawled out on the living room floor with a calculator and papers scattered all over. The dots were connecting faster than I could write them down.

My wife, Laura, came home and said, “What happened to YOU!?!?”

Koch’s book, which I had just begun to read, would prove to be the most pivotal business book I’d ever picked up.

But there was something else, too: I’d experienced an epiphany, a *new* insight about 80/20. One that I’ve never read about in any other book before or since. Suddenly I saw 80/20 *everywhere*. It was like flipping a switch and witnessing the world change from black and white to color.

This book is about the contents of that epiphany. It’s how it became possible for my business to expand a thousand percent and more. It’s about the myriad ways I began to apply 80/20 in every aspect of sales and marketing. This new insight became *the* organizing force of my professional life.

It was a huge key to me cracking the code on Google’s advertising system a full five years before most other people did; 80/20 was also instrumental in me becoming the world’s best-selling author on the hyper-competitive subject of AdWords.

80/20 helped immensely after people had optimized every possible part of the ad campaigns and needed to know what to do next; it helped later when it was time to decode Facebook advertising. I’ve written about 80/20 in every business book and taught it in nearly every training course. I can’t imagine doing a business consultation without it. It led to the creation of a tool, included with this book, that radically altered my entire concept of sales and marketing.

If you’re just starting out in sales or marketing and you dig numbers, this book is your new bible for what actually works in sales, marketing, lead generation, publicity, and ecommerce—and what doesn’t. 80/20 will become your number one way to organize everything else you ever learn about selling for the rest of your life. You’ll get to the *dinero* two times, even five times faster. You’ll pocket more of it, too.

If you're a seasoned sales or marketing pro yet you know you haven't reached your full potential, this book offers an elegant new framework for every move you make. It will amplify every skill you've acquired so far.

You'll be able to immediately and reliably estimate how much money you're leaving on all your different "tables." You'll find levers within levers, the ability to produce not merely 2X but 100X improvements in productivity. You'll gain x-ray vision into untapped markets and you'll "see around the corner" in ways that surprise your colleagues and competitors. You'll effortlessly move into regions of higher effectiveness.

Finally, you can apply 80/20 to your reading of this book! You can read 20 percent of this book and get 80 percent of the benefit, because this book is marked with special sections called "Pareto Points" and a logo that looks like this:



Watch for this icon as you read, because it means the material is *extremely* important.

Also, you'll want to visit www.perrymarshall.com/8020supplement and print out my "Double Pareto Page"—the top one percent most powerful strategies in this book, condensed into a punchy one-page hot sheet.

I believe you'll find these shortcuts to be so valuable that you'll want to read 100 percent of the book and the online bonuses, then reread all of it—because if the best one percent impacts your income by \$100,000 or more, the entire book is easily worth \$250,000. This book will change your life.

Yes, I know that's a bold statement. But test me and see if it's true, because I've tucked many dozens of strategies and powerful techniques into the coming pages.

I've been teaching 80/20 to my "Planet Perry" members for 10 years now—people who subscribe to my emails, join my mastermind groups, and

attend events. Thousands of sales professionals and entrepreneurs have internalized these techniques and built successful, thriving companies, sales and consulting careers around it. Today, I offer it to you.

—Perry Marshall

How 80/20 Works and Why

A few years ago I held a seminar in Chicago called “The 80/20 Seminar for Direct Marketing.” To my knowledge it was the first such conference or seminar. It cost \$3,000 to attend and I had about 80 people in the room. All of them ran businesses of one kind or another, most of them online. To illustrate the all-pervasive nature of 80/20, I said, “Everybody stand up if you have shoes on.”

Everyone stood. I said, “If you own fewer than 4 pairs of shoes, please sit down.” A bunch of people sat down, and about 50 were still standing.

“If you own fewer than 8 pairs of shoes, sit down.”

More people sat down, about 30 left.

“If you own fewer than 16 pairs of shoes, sit down.”

Thirteen people, 9 of them women, still standing.

“32 pairs of shoes.”

Three women standing.

I smiled. “Don’t be embarrassed, ladies. Just tell the truth, cuz I’m illustrating a principle here. How many of you have more than 64 pairs of shoes?”

Two sit down. One left standing. She cringes with embarrassment.

“How many shoes do you have?”

“Umm, about 80.”

“Thank you so much. You can sit down now. Give this woman a hand!”

Everyone clapped. “20 percent of the people own 80 percent of the shoes. Can you see that?” I said. All nodded in agreement.

“Everybody stand up again—everyone who owns at least one domain name.” They were all marketers, so it was pretty much everybody.

“Sit down if you own fewer than 10.”

Half the room sits down.

“Fifty.”

Half again sits down. We’ve got maybe 20 still standing.

“Two hundred.”

A bunch more sit down, 10 standing.

“Five hundred.”

Five people left. I keep going—1,000, 2,000, 5,000.

At 5,000 domain names, I’ve got two people left. At 10,000, one guy sits down.

Mickie Kennedy from Baltimore, one of my best customers, is the only one left standing. “How many domain names do you own?”

“Twelve thousand.”

Mickie was a “Domainer,” the domain-name equivalent of flipping real estate. He owned entire portfolios of domain names, some selling for tens of thousands of dollars.

20 percent of the people owned 80 percent of the domain names, **and in a room of 80 people, one guy owned nearly half.**

Almost everything is like that.

Not absolutely everything—but most things. Shoes, domain names, Bible verses, trips to Vegas, pearl necklaces, consumption of dinner napkins, tubes of lipstick. Rabbit populations, streams and rivers, size of

cities in southern Argentina, passengers on London’s underground “Tube” trains. Net incomes, profit margins, software development timelines. Foreclosures, trips to the tavern, and trips to the emergency room. Diameters of stars and planets, and the size of craters on the moon.

Why rattle off this scattered list of things in a business book? Because if you can see 80/20 at work in this list, you can identify it in any part of your business. Once you’ve learned to recognize it, you can’t *not* see it. Look at the tree outside your window: 80 percent of the sap travels through 20 percent of the branches.

If you have 30 customers, you’re tempted to treat them all the same. Well they’re really not the same at all. Odds are, 20 percent of your business comes from just one of them. The size of those customers really looks like this, in Figure 1–1.

All these things obey the 80/20 principle. That’s because 80/20 isn’t a mere rule of thumb, and it’s not just for business. It’s a law of nature. John Paul Mendocha observed that 80/20 is literally *the* “Invisible Hand” that Adam Smith wrote about in his landmark book, *Wealth of Nations*, when Smith made his case for free-market capitalism in 1776.

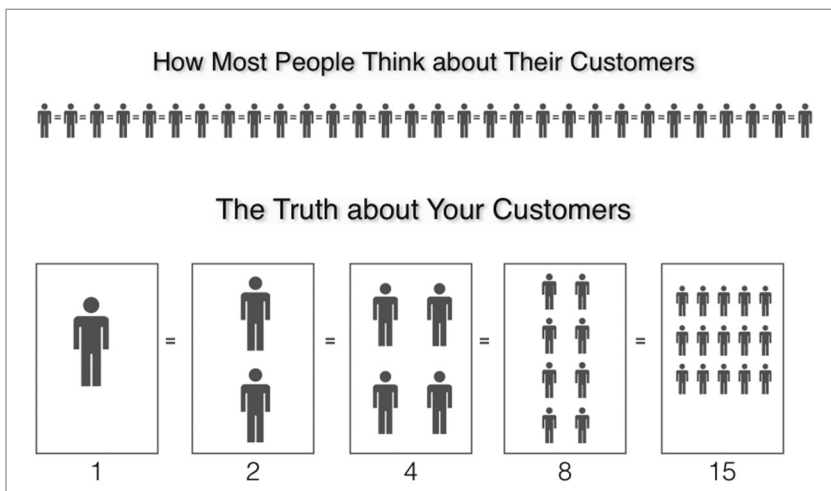


Figure 1–1. Customers are notoriously unequal. If you have 30 customers, their capacity to spend money with you looks like this. The first customer generates 20 percent of your business, the next two largest give you the next 20 percent, and so on. The same principle of inequality applies to almost everything in your business. (Illustration by Danielle Flanagan.)

It's not the exact number 80/20 that's the rule; it's the principle of *positive feedback*, which is when behavior is rewarded so that it produces more of the same behavior. Sometimes it's 60/40 or 70/30; sometimes it's 90/10 or 95/5. The exact numbers aren't so important. But it's always there.

It's a law that almost nobody ever gets taught in school. In fact, our current educational system trains most of us to be blind to it, ignore it when we do see it, and even fight it as our enemy, instead of embrace it as our friend.

Exceedingly rare is the person who truly understands it in all its depth, and I discovered a new insight, a new approach that I've never found about 80/20 anywhere else.

Almost nobody reads simple election statistics that "14 percent of the voters turned out at the polls in this election" or "5 million people donated at least \$5 to the election campaign" and translates it into a vivid, meaningful picture of those people, all the way from casual interest to rabidly passionate and addicted.

Few people ever even consider that a tiny minority of the donors give almost all the money. And that the one million smallest donors gave less money than the top ten.

Even if you've got average math skills, in literally 60 seconds you'll be able to predict, with spooky accuracy, that 735 donors gave that same election campaign more than 10 grand—with a simple web page you can pull up on your smartphone.

If your job has anything to do with raising money, you better darn well know that those 400 donors exist, what they look like, and where to find them.

It might also be useful to know that there were 17 donors who gave over \$250,000.

With some very simple tools that come as a bonus with this book, you can punch in a few numbers on your phone or computer in seconds, and make spooky-accurate guesses. How many gave over \$5,000? You'll know.

At lunch on the back of a napkin, you'll be able to shuffle through all kinds of ordinary facts about your business—how many customers, how many VIP members, how many shoplifting incidents, the number of people who opened yesterday's email. You'll easily assign dollar figures to

all and instantly know which opportunities are worth pursuing and which ones waste your time and money.

80/20 101

80/20 says 80 percent of your results come from 20 percent of your efforts, and 20 percent of your results come from the other 80 percent.

But that's barely the tip of the iceberg. The *real* power in 80/20 is that you can disregard 80 percent of the roads in your city, only look at the top 20 percent, and the 80/20 rule will *still* apply. 80 percent of the 80 percent of traffic is on 20 percent of the 20 percent of roads.

That means 64 percent of the travelers drive on 4 percent of the roads. That's 80/20².

Then we do it again: 80 percent of the 80 percent of the 80 percent of the traffic, runs on 20 percent of the 20 percent of the 20 percent of the roads.

In other words 52 percent of the travelers drive on 0.8 percent of the roads. That's 80/20³.

And it just keeps going because 40 percent of the drivers are driving on 0.2 percent of the roads: 80/20⁴. 32 percent take 0.016 percent of the roads. That's 80/20⁵.

80/20 says that if you have 10 rooms in your house, you spend almost all your time in two or three of them. It says if you hire 10 salespeople, two will generate 80 percent of the sales and the other eight will generate only 20 percent of the sales.

That means that *person for person*, the two are SIXTEEN TIMES as effective as the eight. That's right—a good salesperson isn't 50 percent better, he or she is 16X better. That means there's huge leverage in 80/20: much to be gained if you pay attention, much to lose if you don't.

The Leverage Power of 80/20 Is in the Layers

$$80/20^1 = 16:1$$

$$80/20^2 = 250:1$$

$$80/20^3 = 4,000:1$$

$$80/20^4 = 65,000:1$$



80/20⁵ = One million to 1

. . . and so on.

If you're *not* a math person, stick with me and I'll make this abundantly clear. This is relatively simple and HUGELY important, because if you want to *influence* that traffic—say, sell them something by putting up a billboard—you can accomplish as much with one billboard on a major expressway as 100,000 yard signs on residential streets. That's just a simple, elementary example of leverage. As the story unfolds, you'll discover far more.

You can climb as high as you want, until you run out of roads or customers or products or people. If you have enough numbers to run 80/20 five times, your winners are a million times better than your losers. That's million-to-one leverage, and it's not a joke. It's reality.

Here's a perfect example. Consider the wealth of the entire world—20 percent of the population enjoys 80 percent of the wealth:

According to the International Monetary Fund, the total gross domestic product of all 196 countries in the world in 2011 was \$79 trillion (refer to Figure 1-2).

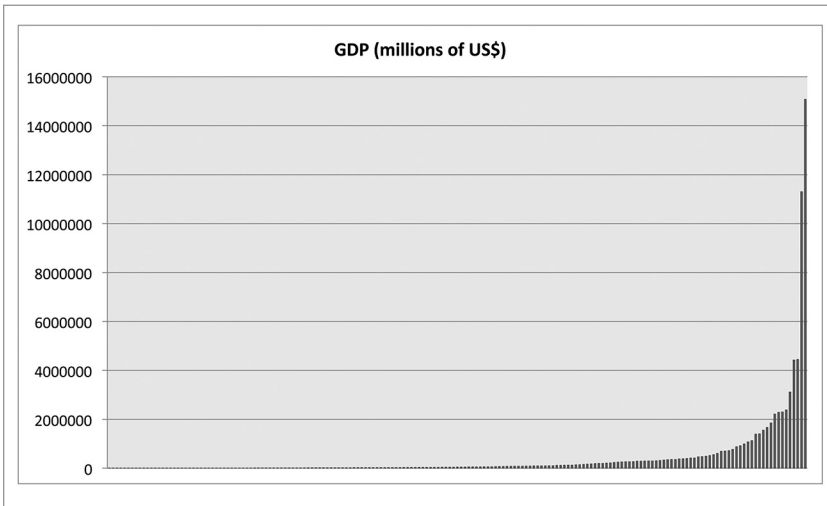


Figure 1-2. This graph shows the productivity of all the world's countries from least to greatest. Sixty-three percent, or almost \$50 trillion of that \$79 trillion, comes from just 10 countries. So 63 percent of ALL wealth is generated by 5 percent of the countries.

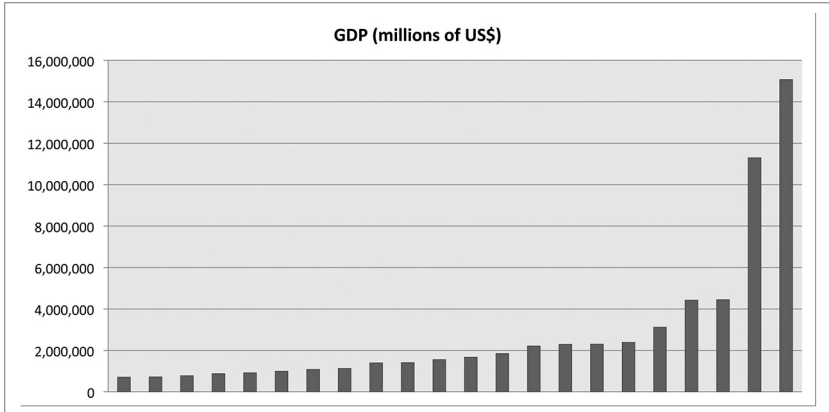


Figure 1-3. 80 percent of the world’s wealth is concentrated in 22 countries.

There are 196 countries in the world, and over 63 trillion (80 percent) of those dollars come from just 22 countries. So, as shown in Figure 1-3 (page 7), 80 percent of the world’s wealth is concentrated in just 9 percent (196 countries divided by 22) of the countries.

I want you to notice how the shape of the curve is the same, whether we’re looking at the whole picture (Figure 1-3), or just the top 20 percent (Figure 1-4), or just the top 4 percent. As we move forward, that curve is going to become very useful to you.

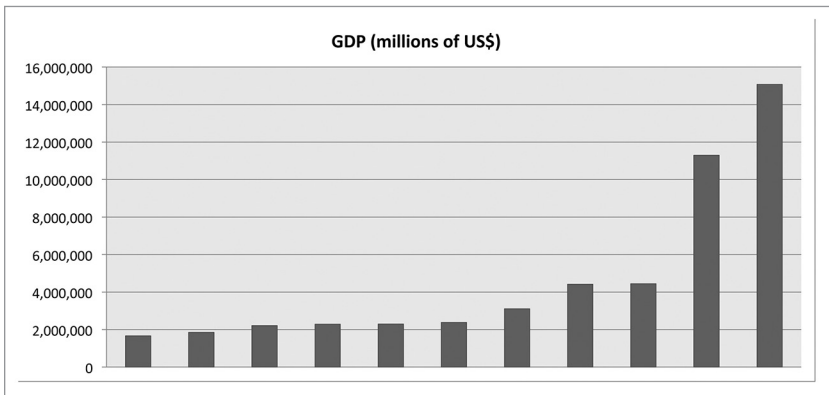


Figure 1-4. Zooming in, we see that \$15 trillion, or 19 percent of the total \$79 trillion, comes from one country, the United States. So 19 percent of world wealth is generated by 0.5 percent of the countries. (REF World Economic Outlook Database, October 2012, International Monetary Fund. Accessed on October 10, 2012. Graphics by Lorena Ybarra.)

Now consider the top 10 wealthiest people in the world. I took this from the Forbes 400 list, from *Forbes* magazine 2011. I lumped members of families together (all the Waltons are lumped together, for example):

1. Walmart—Four Walton children \$87B
2. Microsoft—Gates & Ballmer \$72.9B
3. Koch Brothers—Charles & David \$50B
4. Berkshire Hathaway—Warren Buffett \$39B
5. Google—Sergey Brin & Larry Page \$33.4B
6. Soros Fund Mgt—George Soros \$22B
7. Las Vegas Sands—Sheldon Adelson \$21.5B
8. Bloomberg—Michael Bloomberg \$19.5B
9. Amazon—Jeff Bezos \$19.1B
10. Facebook—Mark Zuckerberg \$17.5B

The total is 381.9 billion, and the top three own 55 percent of it.

80/20 is true of the world's seven billion people—and it's still pretty much true of the top 10 wealthiest people. The 80/20 pattern is exactly the same whether we're looking at the world's seven billion people, the Forbes 400, or the 10 richest people in the world.

Best of all, 80/20 and 80/20² are true of almost *anything* you can measure in a business:

- Sources of incoming phone calls
- Effectiveness of salespeople
- Sales to customers
- Physical location of customers
- Popularity of products
- Types of product defects
- Problem employees
- Customer service problems
- Sources of conflict
- Shoplifters
- Activity patterns in a 24-hour day, or a week or month
- Performance of distributors, affiliates, and channel partners
- Sources of web traffic
- Advertising waste



- Advertising effectiveness
- Productivity of web pages
- Reasons customers buy

That means every one of these things is a source of leverage. It means that each has multiple layers of leverage that you can obtain by “zooming in”— $80/20^2$ (250:1) and $80/20^3$ (4000:1). It means you can combine many of these factors together and cut huge amounts of waste out of your day and your budgets.

As we dive into this material, I’ll give you a software tool that makes eerily accurate predictions and “sees around the corner” in ways that will mystify your friends and colleagues.

Everybody’s Counting the Wrong Stuff

Did you ever take a test in high school and listen to the teacher explain the results of the test? “The average was 77, the low was 41, and the high was 99.” Sometimes my teachers would draw a bell curve on the board, like the one in Figure 1–5.

But if you’re a results-oriented person, the bell curve almost never tells you what you really *want* to know or *need* to know. Let me explain.

One hundred students took a science test. The average was 77. The 77 is important to the teacher and the school, but it’s not all that important to

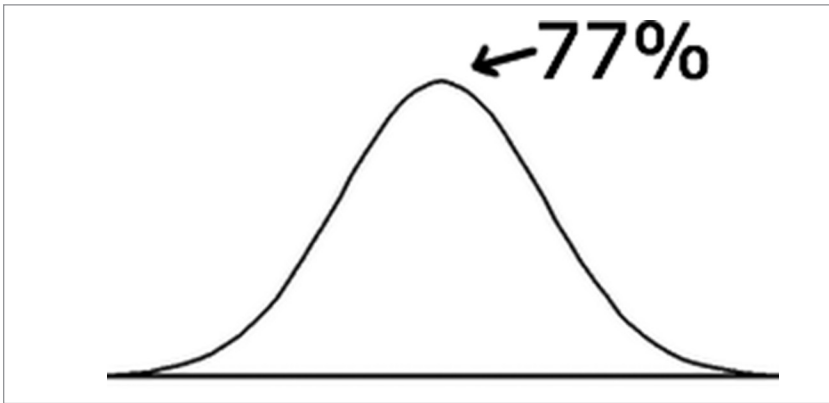


Figure 1–5. Bell curves tell you how many people got a certain grade. “12 students scored between 80 and 89 on the test.”



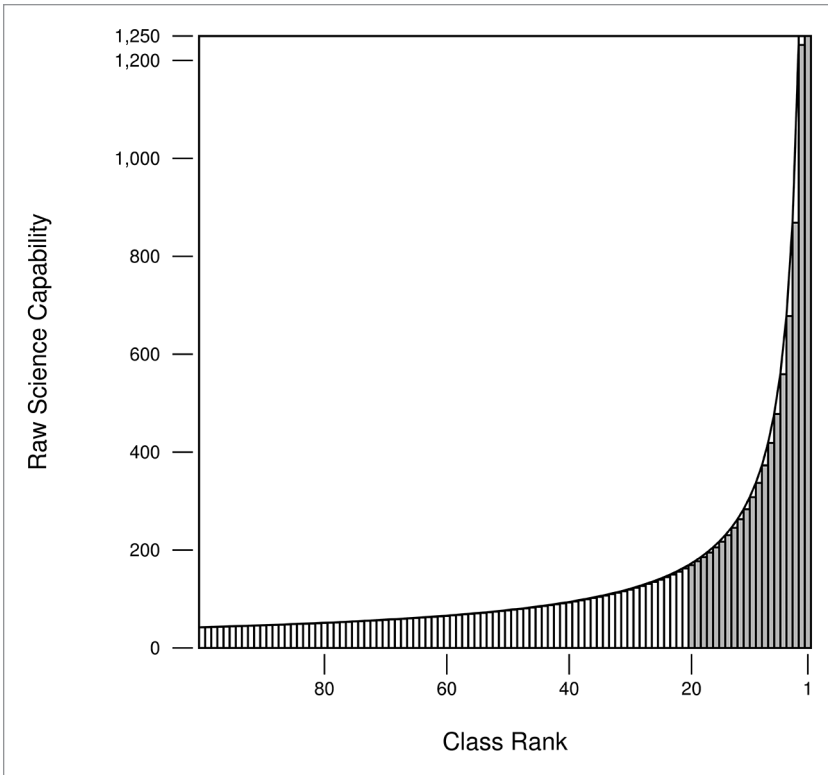


Figure 1-6. The 80/20 Power Curve.

anybody else! If you took it and got an 87, great, you know you were above average. But let's say you want to hire one kid to do science experiments. You want to know a) which kid is the best at science, and b) how good is he, really?

*If you're trying to get something done, if you care about achieving results, there's a much better way to see this class and everyone who took the test. Let's put the kids on the **80/20 Power Curve** (which you can access www.8020curve.com), in Figure 1-6.*

You have lived in and around the 80/20 Power Curve every day of your life. But it hasn't been until now that you actually saw what it looked like. Almost everything that matters to you in your life follows this curve.

The Power Curve shows the data very differently than the bell curve. It ranks everyone from bottom to top, like the bell curve does. But it's

different from the bell curve because it doesn't measure how many of them got a certain score. It measures how good they are.

So the x-axis is students ranked from bottom to top. The y-axis measures their ability; their ability to do science, or write, or read, or play basketball, or whatever.

It shows you that 80 percent of the science capability is carried by 20 percent of the kids. In fact, if you look a little closer, you will see that the best kid has 50 times the "science horsepower" as the worst kid, and 14 times as much as the average kid. In this graph, the average is 77, but the top is over 500. This is because the very best kids could answer far more difficult test questions for extra credit and get a score of 500 percent or 1,000 percent.

Recruiting Power Players

The Power Curve also shows you one other thing that the bell curve doesn't even hint at: the tremendous capacity of the very best. Let's say the top student in the class got 100 percent and the next one below him got 98 percent. Is the best student really 2 percent better than the second best student?

In the school of hard knocks, where passion and performance are far more important than answering questions correctly, the best student is probably *50 percent better* at science than the second best. Not 2 percent better. This is incredibly important. If you care about curiosity, discoveries, research, commitment, and results, recruiting the best instead of second best is huge.

For you, the talent scout, the test was an easy way to sort the winners from the losers. I'll give you a powerful illustration of that in a few pages.

Average Is . . . Average

80/20 is unconcerned with "average." Why? Because almost nobody is average, and the ones who are don't matter much anyway. Instead of emphasizing mediocrity, the Power Curve focuses on ability. It zeroes in on the best, the cream of the crop.

By the way, "A" players are usually picky and demanding. They tend to be prima donnas and break a lot of rules. They need special care and feeding. Your number-one sales diva, who outsells everyone else three to

one, may insist on having her own private dressing room, a masseuse, and a personal feng shui consultant. That's just how "A" players are. If you don't like that, you can always hire "B" players and be mediocre, if you prefer.

In business we talk about "averages" all the time. Average transaction size, average number of customers who walk through the door every day, average number of purchases, etc.

And while those are convenient handles that everyone knows how to grab on to, those numbers almost never tell you what's really important. Like which are the top 20 percent of transaction sizes? Who are the most important customers walking through the front door? Who makes a lot of purchases, instead of just a few?

The 80/20 Power Curve is far more useful than the bell curve. You need to resolve to stop thinking in terms of averages. Instead, think in terms of extremes and multiples, exponential growth and powers of ten.

The Power of Power Laws

The math that drives 80/20 is called power laws. A Power Law more or less says that if foxes are 10 times bigger than rabbits, you can expect 10 times more rabbits than foxes. And if horses are 10 times bigger than foxes, you can expect 10 times more foxes than horses. On it goes, down to the smallest of insects and even bacteria.

Power Laws tell us that an accurate picture of cause and effect is best expressed in powers of ten. They tell you that your customers' ability to spend money is not in increments but multiples.

The Richter scale measures earthquakes. It's based on Power Laws. A 5.0 on the Richter scale is barely noticeable. A 6.0 is 10 times more powerful, likely to knock objects off of shelves and might cause injuries. 7.0 is 10 times more powerful than that, enough to level homes and buildings and inflict loss of life.

The 1-to-10 Richter scale is a far more useful way of expressing the power of earthquakes than regular numbers, which would have to be one to 10 billion. Imagine a radio announcer saying, "Last night's earthquake had a strength of 100,000. Fortunately, almost nobody noticed."

There are no world-famous 5.0 or 6.0 earthquakes because they're not even big enough to shake you awake in the middle of the night. But the 2010

earthquake in Haiti was 7.0. The devastating San Francisco earthquake of 1906 was 8.0.

5.0 earthquakes are 10 times more common than 6.0s, which are 10 times more common than 7.0s.

Decibels measure sound the way the Richter scale measures earthquakes, except every 10 decibels signals a 10-times change in power. A range of 0 to 120 decibels is a lot more manageable and intuitive than a billion-to-one range in power. Decibels convey how your ears perceive sound much better.

To see cause and effect in your business as it really is, shift your business thinking. Business is not about increments. It's about the Richter scale and powers of 10.

PARETO SUMMARY

- ▷ The real power of 80/20 is $80/20^2$, $80/20^3$, and so on. It keeps going until you run out of things to count.
- ▷ 80/20 applies to everything in the world that has positive feedback, from the income of 7 billion people to the Forbes 400.
- ▷ Almost everyone talks about “average,” but average equals mediocrity. The 80/20 Power Curve is about results.
- ▷ Top performers are not twice as good as average performers. They're more like 100 times better.
- ▷ Everything that really matters in business isn't linear, it's exponential. 80/20 is about Power Laws—powers of 10. You should always think in multiples of 10.