

How to Tap the Explosive Potential of the 80/20 Rule

A Special Report by Perry S. Marshall

To most people, the 80/20 Rule is not much more than a business buzzword, and maybe handy rule of thumb for setting priorities.

(If they know what it is at all.)

But... those who understand its depth – and *live* by it – possess a secret weapon of immense power. When you understand it the way I do, you have the power to completely transform your business and your personal effectiveness at every level. You will multiply the value of your time, free up important resources, and make more money than you ever have before.

I know.... I've experienced it myself. The 80/20 rule empowers every business decision I make, and more importantly, I've made new and totally unique discoveries about 80/20 that make it even more powerful.

This report is the beginning of your journey to getting more done with less effort than you ever knew possible.



The “Laziest” Summer of My Life... (Laura still can’t believe I got away with it.)

Just last week I was having a conversation with my wife Laura about an entire summer that I mostly took off. She says, “You hardly did any work at all for three months and the money just kept showing up in the bank account.

“I can’t believe you got away with that.”

She was right. I spent ten days in India, a week of summer camp with Marcus, another week at summer camp with my God-daughter Drea, a trip to visit in-laws in Nebraska, two weeks family vacation on the East Coast...

Not a bad summer vacation. More time than most people take off.

But that’s just the tip of the iceberg. Most of the rest of the summer I handled a bunch of personal and family matters, stuff having nothing whatsoever to do with biz, that had been neglected way too long.

Most days I did work, I only worked for an hour or two and the rest of the time I focused on a totally different set of priorities.

Our multi-million dollar biz kept humming along just fine, no problem.

Laura says to me, “How *did* you get away with that?”

“I knew the very most important things I needed to do and I showed up for them. And I delegated the rest.”

She kind of shakes her head in disbelief.

She also knows: Right now I’ve got the pedal to the metal, applying my talents to a very small set of highly productive projects, and in the next few months she expects to see more **huge** results from that effort.

Why and how was I able to do all this? *More productivity, more income, less time, less effort – how is this feasible?*

It’s because I run my business according to the 80/20 principle. I’ve found points of huge leverage.

You can too. You can accomplish and earn far more, with far less effort, than most people ever believe possible. Here’s the story of my discovery...



“Epiphany at Buzz Café”

In the spring of 2003, my friend Ken McCarthy recommended Richard Koch’s book *The 80/20 Principle* and I ordered a copy. Took it to my favorite coffee hangout, Buzz Café and started reading.

I’d known about the 80/20 rule for a long time and in fact at a previous job I had compiled a list of customers and ranked them from top to bottom and proved to myself, yes, it applies to us and our business too. Yes, 80% of our business came from 20% of our customers. The other 20% of our business came from 80% of our customers. I figured I understood it well enough.

But I was sitting there at Buzz, reading this book, and I got to page 14 and suddenly my brain caught on fire. In a moment, it hit me, the enormous *depth* of it. The nearly infinite layers and dimensions of it. (I’m not exaggerating when I say “infinite,” either. In fact, that’s **the** missing puzzle piece as you shall see...) That within this seemingly simple principle lies not merely the power to make incremental improvements, but grand, sweeping quantum leaps. I saw how it applied to things that I was doing *right at this very moment*.

Points of huge, powerful leverage. Where tiny efforts would produce huge results.

Dang, I had to go home and try this for myself.

I jumped up out of my seat, paid for my coffee and drove home. Hours later, my wife finds me sitting on the living room floor with a calculator and papers scattered all around me and my head in a lather.

“Perry, what happened to YOU?”

“I just discovered the key to life, the universe and everything.”

I was joking... but only a little.

My consulting and publishing business was very small at that point – just a few hundred thousand dollars a year of sales, enough for a comfortable living for me and my family – but looking at my numbers I could suddenly see the 80/20 rule operating at every level of that business. The visitors on my website, the opt-ins, the phone calls, the sales, the upsells. Which pages of my site were popular and which ones weren’t. It was like an X-Ray machine.

I saw *immediate* opportunities for increasing my profits. Holes in my product line. Pockets of potential sales and profitability that were wide open and gaping, waiting to be filled.

I saw opportunities for changing the way I spent my time. I saw my talents and natural abilities differently.

There were immediate implications for my employees, what I gave them to do and what I expected of them.

I immediately wrote up a special report for my biggest client and talked to them about how we needed to apply it to their business. If you’ve never really studied the 80/20 principle, the report I wrote them is a great introduction to the 80/20 rule.

Wanna see that report? Here it is:



To: B&B Management
From: Perry Marshall
Date: March 9, 2003
Re: A smashing epiphany

Someone once defined a breakthrough as the sudden cessation of stupidity.

Gentlemen, I just had a breakthrough on Saturday.

Ken McCarthy urged me to buy a book by Richard Koch called *The 80/20 Principle: The Secret to Success by Achieving More With Less*. Of course I bought it.

Yesterday I sat down and started reading it. By the time I got to page 14, my brain was on fire. Four hours later my wife came home and found me sitting in the living room with a programmable calculator and pages trigonometry calculations, charts, graphs and numbers. A massive brainstorm was underway.

This book is about the familiar 80/20 or “Pareto” principle – which of course we’ve all discussed together from time to time. But I’d never thoroughly considered what happens when you stack multiple 80/20 factors on top of each other. When you apply 80/20 multiple times to multi-step marketing, the implications are staggering. What I’m about to show you lines up perfectly with the conversation we had at the trade show last week, and it intensely clarifies what we need to focus on in the next three months.

Let’s begin with the action items we discussed – all of them are the correct actions to take, by the way – and work backwards to the 80/20 stuff. Please read all of this, I’m certain that it will accelerate B&B’s growth this year.

Action Items from Last Week

- We’re going to drop a whole lot more catalogs within the next two weeks. Since it works, we shouldn’t do something instead else until it’s known to work better.
- The next time we print the catalog, we’re going to improve the cover (especially the back) and we’re going to offer information widgets in keyed inserts so we know which mailing lists are working.
- We’re going to focus very heavily on growing and catering to our in-house list of technical decision makers.
- We’re going to mail more postcards to our in-house prospect list.
- Mike and I are working furiously to enhance the website and communicate with more and more prospects via email on a consistent, frequent basis.

Agreed?

Onward to the 80/20 stuff.

80/20 is far more than just a handy rule of thumb. It is a very useful, elegantly simple expression of the fact that nearly all things and populations exhibit tremendous amounts of eccentricity and inequality – and that we as human beings mostly fail to recognize this. In general:



- 80% of the sales come from 20% of the customers
- 80% of the profits come from 20% of the products
- 80% of the problems come from 20% of the customers
- 80% of the crimes are committed by 20% of the criminals
- 80% of your productivity occurs during 20% of your time
- 20% of your customers at any level have the potential to spend five times as much money as they are right now

...And so on. We all know this. But the real gains come from a) cascading multiple 80/20 relationships together, and b) applying the successive gains to multi-step marketing. It will literally make marketing generate 4X to 16X to 64X as much results.

Let's apply this to B&B. Right now, every customer and prospect is essentially treated the same in mailings. We rent the same blind mailing lists over and over again and we never find out which 20% of those lists is actually worth mailing to. What this means is:

- 80% of the catalogs we print only influence 20% of our sales
- 80% of the mailing lists we rent only produce 20% of the results

And because all existing customers are being treated the same, this also means that

- The 20% of customers who could be upsold and/or would buy much more often are being treated the same as the 80% who can't and won't.

So let's talk about the benefits of adding some marketing intelligence.

If you identify the 20% of any given audience which is likely to respond to an offer, you can stop wasting money on the 80% and market to the superior 20% five times harder.

I've already said this. But the shocker is now much exponentially better it gets in multi-step marketing. Every "concentric circle" you define within your customer base introduces an additional 80/20 rule that you can further leverage. I have drawn this on the following page.

The example you see here is very simple: It shows a universe of 10,000 customers who spend an *average* of \$1.00 each, and divides them into five layers. Roughly equal amounts of revenue come from each of the five layers, **but the profit margins are vastly different**. That's because between the bottom majority and the top minority, the customer value differs by a factor of 4⁴ or 256, *even though the marketing cost is the same for each group*.

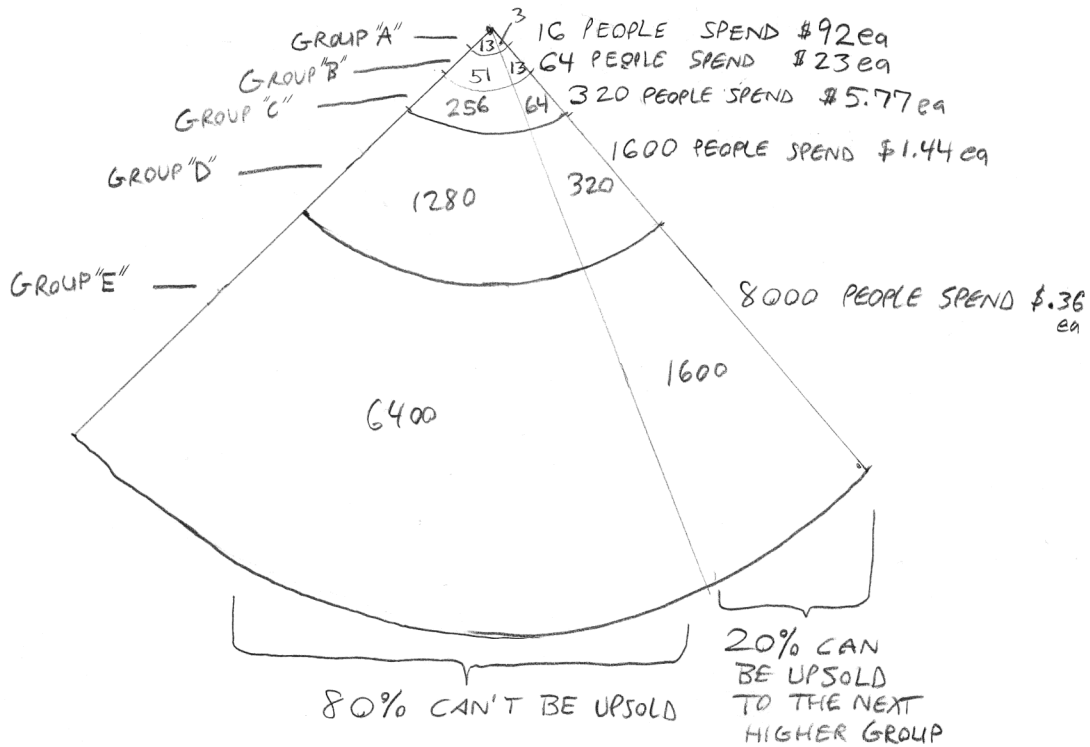
This example applies equally well even if the bottom two layers haven't bought anything yet – even

if they've only exhibited (by responsive behavior) different stages of interest:



TEN THOUSAND PEOPLE SPEND AN AVERAGE OF \$ 1.00 EACH

A VIVID ILLUSTRATION OF THE 80/20 RULE IN MULTI-STEP MARKETING



NOTES

- ① LET'S ASSUME IT COSTS \$1.00 TO ACQUIRE EACH CUSTOMER. THE FIRST TIME OUT, YOU BREAK EVEN. ROI FOR EACH GROUP IS:
A = 92:1 B = 23:1 C = 5.8:1 D = 1.4:1 E = 0.36:1
- ② IF IT COST \$1 TO UPSOLD, THEN ONCE AGAIN YOU CAN MAKE 92:1 ON A, 23:1 ON B, 5.8:1 ON C AND IGNORE D AND E. IN THAT CASE YOU WILL INVEST \$400 AND GET BACK \$4048 (10:1 ROI)
- ③ WHEN YOU FACTOR IN NET PROFIT MARGINS, THE BENEFIT OF MARKETING SELECTIVELY TO DIFFERENT GROUPS IS EVEN GREATER.
- ④ 95% OF YOUR PROFIT IS IN 5% OF YOUR CUSTOMERS.
- ⑤ THIS ILLUSTRATION APPLIES TO ALL PEOPLE IN YOUR SALES FUNNEL, WHETHER THEY HAVE BOUGHT FROM YOU OR NOT.
- ⑥ THIS PROVES THAT IF YOU ONLY MAIL ONCE, YOU LEAVE 80% ON THE TABLE.



Let's say we we're going to spend fifty thousand dollars sending out catalogs, and let's say it costs \$1 to send each one. We can mail once to 50,000 prospects. But if we can figure out the most probable 20% of those prospects, based on their response to emails for example, then we can mail five times to 10,000 prospects – *and statistically we will sell 2.5 to 5 times as much product.*

So what do we do with this?

The Action Plan

It's logical to divide B&B's universe into five levels. They are:

- E. The Unwashed Masses – website visitors who don't find what they're looking for; people on mailing lists who don't respond
- D. Prospects who have proactively contacted us and asked for information
- C. Infrequent Buyers
- B. Frequent Buyers
- A. Large Buyers

Based on last week's discussion, I am in favor of "throwing money at the problem" right now, because mailing catalogs blindly *is* known to work. But just as certainly as the sun rises in the morning, B&B is losing millions of dollars in sales and a disproportionately larger percentage of profits by not having its database segmented in this way.

So it is **vitaly important** that we make whatever investments are necessary to 1) stratify the A, B and C level customers, and 2) apply low-cost lead generation methods so that we have a targeted list of "D" level prospects. *After that* we can start spending less money mailing 800,000 catalogs a year to "E" level prospects.

#2 requires that the next catalog have a built-in response mechanism for technical decision makers, i.e. offering white papers and related information. This is a must.

If we do this, we may spend as much as 2/3rds of the 2003 marketing budget during Q1 and Q2 (mailing out catalogs via brute force, mining our existing customer base for information, and doing lead generation) but the 1/3 of the budget money that remains for Q3 and Q4 will have tremendous leverage. I fully expect that the sales growth in the latter part of the year will easily justify raising that budget, should a budget increase even be necessary.

Again, the list we came up with at the show is right on target—we just need to be very clear about the information we're going to gather and how we can use it most effectively.

You guys on board with this? Let's execute ASAP.

Sincerely,

Perry S. Marshall



And Then What Happened Next Was...

Over the next several months, we began making those changes. Discovering the huge inequalities between various mailing lists we'd been renting; eliminating the bad ones and renting the good ones more often. We identified pockets of responsive buyers and started investing more in selling to them and giving them improved customer service. We cut the cost of mailing catalogs and sent more to the more productive people in their universe.

B&B was already 22 years old, doing business in an old and stagnant industry. **Nevertheless, in the time since 2003 the company has nearly quintupled its sales.**

Marketing Sherpa awarded them "Best Business-to-Business Direct Marketing Program of 2007" with a case study on how to combine search with Web, Postal, Telemarketing and Email. At every step of the way, application of the 80/20 rule has led them to the next level of performance. Inexpensive marketing mechanisms (like responses to emails) are used to decide which customers to spend money on, i.e. sending expensive catalogs and sophisticated mail packages.

How the 80/20 Rule Works and How I Use It

Let's say you've got a team of ten sales people. The 80/20 rule says, the top two will generate 80% of your business and the other eight only generate 20%. What that really means is, person for person, the top two are SIXTEEN TIMES more effective than the other eight. The effective group gets four times as much done with one fourth the people.

Not only that, time you spend making the super-performers more productive is hyper-effective. (Most sales managers do the opposite and try to nurse the bad ones back to health... the 80/20 rule says that's a mistake. But... it also indicates, there are other things those people should be doing *instead* of sales, and there are even implicit ways of identifying those skills. But I'm getting ahead of myself...)

So the 80/20 rule isn't about 10% improvements, it's potentially about 1600% improvements and more. It isn't about fine-tuning things, it's about making potentially very small but fundamental shifts in the structure of your business and getting HUGE returns on your effort.

And it's not just about 16X improvements. Because there's still a top 20% of the top 20% (4%) that produces 80% of the 80% (64%). So 4% of your effort produces 64% of your results.

Then there's another top 20%. 0.8% of your effort produces 52% of your results.

And another top 20%. 0.2% of your effort produces 40% of your results.

1000:1 powers of leverage and more are not just possible, *they're right under your nose, right this very minute.*

1% = 50%
That's Good Math.



That means if you double the effectiveness of **the most important 1% of your business** (i.e. changes to a tiny part of your marketing, advertising, customer service or operations) **your results go up 50%**.

When you know what 1% to focus your effort on, your business stays healthy with no wasted moves on your part. **That's why I was able to take the foot off the gas in the summer of '07 without seeing my business slow down.** It's the golden key to everything.

The 80/20 Rule Gets Even BETTER

The material I've already shown you in this report should already be enough to inspire you to suddenly see huge opportunities in your business. Is there a top 5% or top 1% of your customers who would pay "cost no object" prices for a deluxe experience that you could easily offer them? The answer is almost certainly "yes." Is there an expense in your business that could be slashed by 50, 60, 70% just by eliminating one or two problem points?

Again, the answer is almost certainly a resounding "yes."

It's not unusual for small business operations to make a week of changes and see profits increase by 50-60% almost overnight.

But there's more.

What if the 80/20 rule could be applied as an exact science, rather than just a rule of thumb?

What if it could be used to make predictions about markets, about businesses, about problems and pain points and suppliers?

What if you could take a tiny bit of information and plug it into a formula – and get a huge amount of information out?

What if there were a "black box" that revealed you, based on a small amount of data, huge hidden markets and veins of gold? What if you could predict, in advance, the texture of new discoveries before you make them?

What if, in markets where everyone else is breaking even (from high advertising costs) you were making 1.5:1, 2:1, 4:1 or more, on every click that comes to your site – even the expensive clicks?

It's possible.

In fact I've developed an entire technology around this, from scratch.

Because when I was beginning to work with this, I had an epiphany. The epiphany was: *The 80/20 rule is not just a business rule of thumb, it's a LAW OF NATURE. And it's not just a line of separation, it's actually...*

...a calculus formula.

I went into geek mode and my imagination started racing.



I didn't want to re-invent the wheel, so naturally I searched high and low. But... I couldn't find it. Oh, sure, I found formulas, there's all kinds of them. But I couldn't find one that really described this the way it actually works.

Somewhere out there was a new formula, awaiting discovery.

But I kept getting stuck. Over and over and over again, I would hit a dead end. But I knew the formula had to exist.

Then some time later I cracked the code. I found the formula. (It "clicked" in the middle of a Roundtable meeting while I was doodling on a piece of paper. Dr. Glenn Livingston was watching me out of the corner of his eye. He probably thought "Oh, Perry's doing calculus problems just to keep his mind sharp." Nah... actually, I was hot in the pursuit of something, even while I was helping one of the members solve a *different* business problem.)

I started showing this tool to people... business colleagues, friends, even mathematicians... nobody had ever seen anything like it.

I began to play with it. It was fascinating. And it was almost spooky to plug numbers from various businesses into my "black box" and find that it could make estimates about sales into new markets and the predictions were accurate to within 15%. Ferrari automobiles... pricey espresso machines at Starbucks... it works on my business, it works on my clients' and Roundtable Members' businesses... it even works with things that have nothing whatsoever to do with business.

It literally applies to maps and trees and craters on the moon. It is that universal.

So here's what it does for you:

- You can go into a new market, buy some clicks, and test one product at one price and the Black Box will show you at least three other market segments that are as big or bigger, accurately predicting how much money is in those markets. Ripe, low-hanging fruit, waiting to be picked.
- It shows you "found money" inside your own customer list. It will show you how much money they'll pay, how much they'll pay, and how many will ascend to the next level above that.
- It tells you if you'll make more money by offering a bargain-basement priced product. Maybe you will, maybe you won't – but you can find out ahead of time.
- You can determine, in advance, the cost of increased market share. Going from zero to 1%, often that's pretty easy, getting new customers is cheap at first. But it gets more difficult as you expand outward. Going from 1% to 10%, hard. 10% to 20%, even harder. How much harder? Now you'll know.
- You'll be able to know things about your competitors' businesses that they can't even see themselves.
- A product launch fails the first time out... Is it the audience or is it simply the offer that needs to change? This enables you to tell the difference, fast.
- It influences almost *everything* you do in direct marketing. AdWords campaigns. Keyword lists. Renting mailing lists. Writing sales copy. It has something vital to say about the "long copy vs. short copy" debate that's been going back and forth for years (and the answer is unexpected). Testing and tracking – what to test, what to track. What you can safely ignore.
- You'll know something is "good enough" vs. knowing that substantial improvement is possible. You'll segment databases and customer lists and lift the cream off the top every time. You'll identify under-served niches within niches. You'll recognize characteristics of certain markets that seem to have bottomless, "deep pockets" and your new instincts will lead you right to those markets.



- Email marketing becomes more effective. You have new strategies to combat things as basic as Spam Filters. The quantity and quality of communication your customers get from you exactly matches their appetite – as does their spending. You maximize *every* output and minimize *every* input.
- Huge blocks of time you are now wasting either become more productive, or are freed up for the things you'd rather do. Like take your kid to summer camp. Improve other areas of your life and your relationships. Take a trip around the world like I did in the fall of 2004, spend no more than 30 minutes a day working on your business, and come home with more money in the bank than the day you left. You can do that too. It's the 80/20 mindset, applied to real life and real business problems and real marketing campaigns.

I've been sitting on this information for a long time now, quietly using it to groom my own business. Many times in phone consultations, I use this to formulate a definitive answer to a question in seconds or minutes... I've been teaching bits and pieces of it in private classes and seminars; A handful of my friends are using this tool to enhance their own businesses.

Roundtable members, coaching students and those who come to my 2-day, 4-man intensives have probably gotten more of it than anybody – which is perhaps an hour of discussion. But there is so much more that can be done with this, that I've never explained. A couple of days worth of hot, new, exciting material.

Think of how profoundly certain things have changed your business life: Pay Per Click marketing – isn't it now kind of hard to imagine what it was like when you didn't have the ability to post ads on a search engine and begin watching for results even the same day? Or maybe you're like me and when you learned how to use sales leads or your website to generate interest and suddenly you didn't have to make cold calls anymore.... Remember how that transformed your life?

This is every bit as powerful as any of those things.

The 80/20 principle and the "Black Box" I just described to you are now such a core part of my thinking, they shape almost every business decision I make at some level. Because it's "installed in my brain." It enables me to get to the bottom of situations in seconds or minutes, that would take most people months of expensive experience.

I want you to have this too. Installed in your brain. One of the filters you use to make fast, effective, power decisions. Imagine the strength you have, armed with these new layers of discernment.

What To Do Next

I am planning a live workshop in the coming months in which I will transfer to you these same tools – both hands-on resources and the mental strategy behind them – which truly enable you to turn 1% into 50%. To get so much more accomplished than you ever thought possible, to make more money in the business you're in right now, to stand strong against your competitors even in tough economic climates.

To be the Alpha Warrior in your market who your rivals fear and respect... because you're succeeding for reasons they do not understand.

In this workshop we'll cover this topic from every angle. Because of what we cover in this workshop you will literally see the world in a different way when you walk out the door. *This is that fundamental.*

If you have specific questions or topics of interest that you would like us to cover, **email lorena@perrymarshall.com and your response will be considered in our planning.** Even if I cannot reply to



your request individually, every comment will be taken into consideration. Of course the survey you took before you read this paper is also helping me shape the content for this event.

Meanwhile, I want you to re-read this paper and begin to apply what you learn right now – today. Start looking for those inequalities in your business, in your customer base and in your market – because those are opportunities ripe for the picking. One hour from now you can begin making changes that liberate you from prisons you didn't even realize you could get out of.

Stay tuned and watch your email box for an announcement about this amazing strategy and business tool. And prepare to enjoy unprecedented levels of freedom and effectiveness in the work that you do.

To Your Success,

Perry Marshall

"Give me a lever long enough and a fulcrum on which to place it, and I shall move the world."

-Archimedes

