



# Are you wasting 80% of your working week making just 20% of your profits?

Almost every business owner we know despairs at the sheer number of demands on their time. They complain about time swiftly slipping through their fingers.

So why would any right-minded business owner waste 80% of their working week generating just 20% of their profits?

Look at it differently. Who'd choose to work 4 days a week to produce only 1 day's worth of results?

In 1897 an Italian economist suggested a now universally accepted outlook on life. An outlook that shapes all the results we all achieve.

Strangely, so few of us consciously, deliberately and persistently put this 100-year-old outlook to work for us.

### In a nutshell

The world is unbalanced.  
The work we do is also unbalanced.  
And because it's unbalanced, it pays to focus on the few things that really pay off for our business.

Vilfredo Pareto - the Italian economist -



proved in 1897 that 80% of the wealth in any country was enjoyed by just 20% of the population.

This 80/20 principle is just as relevant now and shows up in all aspects of business life. It's even more obvious in some sectors. For cinema films, music bands and authors the imbalance can be as much as 99/1.

### 80/20 unbalances you and your business too...

For example, when you start to look closely at your use of time, you'll almost certainly find an 80/20 imbalance.

Think of the opportunity you have if

anything like 4 days of your working week produces a miserly 1 day's worth of results.

Therefore it follows that there's massive value in understanding how 80/20 works for you and your business.

### Here's a proven solution for you...

Identify the 20% of your time, effort and resources responsible for 80% of your results.

Then work out how to do more of the 20% high-value work.



80/20 thinking turns office carpet industry on its head

## IBM use 80/20 to claim a competitive advantage...

In Richard Koch's book 'The 80/20 Principle – The Secret of Achieving More With Less' you'll discover how, in 1963, IBM achieved a competitive advantage by applying 80/20 thinking.

IBM realised that 80% of a computer's time is spent executing 20% of the operating code.

So IBM redesigned the operating software using this 80/20 insight and made their computers more efficient, faster and easier-to-use.

IBM leveraged this 80/20 principle to steal an early march on their competitors.

## So how do you apply the 80/20 rule for success...

Your time is precious. Very precious.

So, if 20% of your time produces 80% of your results, it suggests two actions:

1. Reduce the time you invest in low-value work (the 80% - 4 days)
2. Increase the time you invest in high-value work (the 20% - 1 day)

As Richard Koch suggests:

***"Progress means moving resources from low-value to high-value uses."***

You can delegate low-value work to someone else and do more high-value work instead. When you analyse your workload you may even find you're doing things that

simply don't need doing at all.

Analysing your use of time and changing what you do is a valuable source of 80/20 payoff for you and your business.

Here's another...

## Have an 80/20 look at your customer list...

Look closely at your customer list and, chances are, you'll discover 80% of your profits are generated by just 20% of your customers.

Okay, it might be 70/30. It might be 90/10, but the imbalance will be there.

Re-organising your resources, your people and your time to reflect this 80/20 imbalance can produce a surge in sales success.

Giving your best customers the best attention works. Richard Koch makes the point brilliantly:

***"Being customer-centred on all of your customers is pretty nigh impossible."***

***"But cherishing the core 20% is both feasible and highly rewarding."***

For example, it makes sense for a hotel to look after, more attentively, the long-term penthouse suite guest. The single room, one-night, one-off, business guest, must wait longer at check-in, have clean but older towels, get slower room service.

You too can seek out ways to put 80/20 to work on your customer list. You'll find more on this in the support tools

accompanying this Business Bitesize edition.

There are other ways 80/20 can pay off for your business...

## 80/20 brings industry-changing results...

Richard Koch again tells a great story about a modest company in Georgia USA called Interface Inc. They sold carpets and achieved modest results.

80/20 thinking changed all that.

Interface realised that 80% of the wear and tear occurs on only 20% of any carpet. So they altered their business model.

Interface Inc now leases carpet tiles and have grown revenues to £500m.

Interface's customers no longer need to replace a tired carpet when 80% of the carpet is still in perfect condition. Instead, with their carpet tile lease deal, Interface regularly inspects and replaces any worn carpet tiles.

This lowers costs for both Interface and their customers – all because Interface applied the 80/20 principle, tested their leasing idea and consequently grew a £500m business.

Are you ready to apply 80/20 thinking to your business, your use of time, your marketing, your customer list, your use of company resources or your industry?

## TIME TO DISAGREE:

**“An 80/20 view of our business is too simplistic. Some of the 80% needs to happen to ensure the 20% also happens.”**

Yes your business is unique. And yes 80/20 could be too simplistic a view.

And yet if you accept, apply and act on Richard Koch's idea that:

**“We give too many resources to low-margin activities and too few to high-margin activities.”**

...it's more than possible you'll find at least one way to improve the results of your business.

With such large potential gains, isn't it worth the effort and a little time to look for 80/20 insights and changes?

The first job is one of analysis (as numbers experts we'd be happy to help you identify your top 20% customers, most effective 20% marketing activities or identify your 20% high-value time).

Once you can see how the 80/20 rule applies to you and your business you can do something about it. Take action and you tap into the hidden profits in your business.

**“It's unprofessional to look after 20% of customers brilliantly and 80% poorly. This could jeopardise our reputation.”**

As accountants we are also very sensitive about this issue. Your reputation, like our reputation, is vitally important.

We can't afford to upset lower value customers. However it's still possible to apply 80/20 thinking if you are completely clear about your offer and services:

- Establish crystal clear expectations with each level of customer and you protect your reputation
- Provide each level of customer with a different (but expected) experience and your reputation is preserved
- Only surpass expectations with the 20% of highest value clients so they stay with you longer, recommend others to you and also buy more from you too

**“80/20 is too short-term a view – business changes so we must build flexibility into our business.”**

There is a balance to be struck.

Concentrating solely on '20% only' customers is hard to achieve.

However reducing the number of lowest value customers is easier to achieve.

When you start to look, these low-level customers often generate the most hassle and the worst word-of-mouth – it might improve your profitability if you worked with fewer of them.

Like Richard Koch suggests:

**“80% time drives out 20% time... 80% business relationships displace 20% ones... Mental energy expended on 80% activities takes away from 20% projects.”**

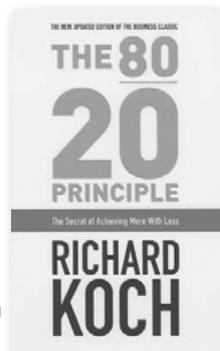
Look for '80/20 wins' in your business and you could see your profits soar.

### Tell me more...

Want to know more?

You'll find more great stories, more big insights and more powerful suggestions in Richard Koch's captivating book:

'The 80/20 Principle – The Secret of Achieving More With Less'



## 4 helping hands for you...

It's easy to dismiss the 80/20 principle as a simple fluke of analysis. It's easy to dismiss because it's so familiar too.

But dismiss 80/20 too lightly and you risk missing out. You risk missing out on a way to radically improve your business results.

Here are a few simple steps to get yourself a valuable result for your business:

1. **Decide to seek out 80/20 insights and 80/20 wins in your business**
2. **Identify the 20% of your weekly time when you produce 80% of your results**
3. **Test reducing the time and energy you invest in low-value 80% activities**
4. **Apply this 'saved' time and energy into high-value 20% activities to get big wins**

**ULTIMATE ARGUMENT:**  
**“How do I know this will work for me and my business?”**

Until you test it, and modify it to suit your business you won't know. What's clear is 80/20 is potentially too valuable to ignore. Why run the risk of missing out on greater profits?

**STOP:** spending precious time on low-level tasks, admin, customers and marketing activities.

**START:** looking for '80/20 wins' so you can unlock greater results in your business.

### Use the Business Bitesize Support Tools And Resources

to help you make the most of this edition of **Business Bitesize** – go here: [www.businessbitesize.com/pentlands](http://www.businessbitesize.com/pentlands)

### Your feedback is important to us.

We'd love to know what you think of this edition of **Business Bitesize** and how you use it or plan to use it. Also we'd welcome your suggestions for future editions of **Business Bitesize**. To give us your thoughts please use the simple feedback form here: [www.businessbitesize.com/pentlands](http://www.businessbitesize.com/pentlands)



## Your next steps:

Here are your bite-sized next steps to achieving the '80/20 wins' in your business.

This checklist, and the support tools, will help you avoid missing out on the success and profit from 80/20 business wins.

## Start by using 80/20 on your use of time:

Take a long hard look at your use of time. Use the checklist opposite to help you see a simple and relatively easy way to achieve greater profitability with '80/20 wins'.

It might be you aren't yet capturing what you do in a diary or in Outlook. If so check out the support tools for a simple but powerful exercise to help you and your colleagues.

## More tools and information for you:

As well as the checklist here, you can use the forms and checklists in the online supporting tools. Together they'll help you make more of this bitesize business breakthrough.

# Here's how you achieve '80/20 wins' from your use of time...

## 1. Colour-code each activity in your diary or Outlook calendar for 80/20

Look at last week's diary or last month's diary and mark each activity red or green.

Red for low-value 80% time – time with lower level customers, time with insignificant suppliers, time on low-level admin, or similar.

Green for high-value 20% time – time with high-level customers, time with influential contacts, time training your best people.

## 2 Decide which low-value 'red-time' activity is easy to stop and which is harder to stop

Work out which 'red-time' jobs can be delegated quickly and easily to others or simply not done at all.

Use the additional support tools to help you rank your 'red-time' jobs. You'll also see which types of low-value jobs are best to stop.

## 3. Work out how to stop doing this 'easy-to-stop' 'red-time' activity yourself

You have a number of options:

- just don't do it, ever
- delegate internally
- leave it till later
- delegate externally

Sometimes low-value 'red-time' jobs just have to be done – just not by you.

For a delegation process to help you do this successfully check out the support tools with this edition of Business Bitesize.

## 4. Decide which high-value 'green-time' activity you should do more of

Work out which of your high-value 'green-time' activities deliver the biggest results for you and your business.

Use the additional support tools to help you rank your 'green-time' jobs and decide what you must do more of.

## 5. Build your new high-value 'green-time' into your diary and make it happen, regularly

So much of our diary time happens by accident rather than being deliberately planned. By looking for '80/20 wins' you bring greater planning to your most precious resource, your time. Make better use of your diary time a habit and you'll hard-wire greater success into your business.

**YOUR SUPPORT TOOLS ARE HERE:** Go to the link below and you'll find a suite of supporting tools giving you further insights and resources to help you achieve greater profitability with 80/20 wins.

Find the support tools to help you here - [www.businessbitesize.com/pentlands](http://www.businessbitesize.com/pentlands)

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# Why risk the health of your business by measuring the wrong things?

Making a loss prompts a strong emotional reaction. And a strong enough emotional reaction results in corrective action, as it should.

So a key measure in your business – a loss – gets you to do something to improve your business results – reduce costs or improve sales.

But shouldn't you be taking timely action to prevent the losses in the first place?

**STOP:** thinking your existing KPIs are good enough. It suggests you're stuck in the old way of managing your performance.

**START:** measuring what matters most to your customers. Then take regular action to improve these new- style KPIs.

## Contents: Healthy Heartfelt KPIs

Here's how you create a Business One Page Plan of healthy *Key Predictive Indicators* for your business:

1. Get clear on the goals for your business
2. Work out, with your people, your customer-facing predictors
3. Work out your sales and marketing predictors
4. Work out your cost and cash predictors (KPIs)
5. Add in your key financials
6. Track your KPIs every month (at least) and take action to improve them

### 1. Get clear on the goals for your business

Continental Airlines goal was to climb away from being the worst ranked airline in 1994 and avoid bankruptcy. Survival was their first goal, then their goals changed as they made progress but they used clear SMART goals.

Here's the definition of **SMART** goals for your business:

*"Lost luggage will reduce from 1 in 57 passengers to 1 in 100 passengers by next November."*

- ❖ **Specific** – there's no ambiguity or uncertainty about what is being measured, it's specific, detailed, crystal-clear. Reducing lost luggage is specific. Make your SMART goals specific too.
- ❖ **Measurable** – as well as being specific it can be measured. 1 in 100 can be measured. Make your SMART goals measurable.
- ❖ **Achievable** – the people responsible for the measure believe it can be achieved. From 1 in 57 to 1 in 10,000 passengers next month would probably be seen as unachievable. Make your SMART goals achievable.
- ❖ **Relevant** – there's little point having goals that aren't relevant to the success of your business. Lost luggage reduction is relevant to an airline. Make your SMART goals relevant to you, your business and your people.
- ❖ **Timely** – there's no ambiguity or uncertainty about what is being measured, it's specific, detailed, crystal-clear. Give your SMART goals a deadline, make them timely.

## 2. Work out, with your people, your customer-facing (KPI) predictors

- What's your equivalent of *Less Lost Luggage*?
- What's your equivalent of *On Time Arrival*?
- What's your customer care KPI for your business?

When, with your team, you discuss what matters to your customers, you'll be able to work out SMART customer-focused Key Predictive Indicators for your business.

You know you've chosen these customer-facing KPIs well if, should these KPIs get worse, you know your customers and your business are at risk.

And if these KPIs improve you know you'll be impressing your customers and promoting future success in your business.

You'll find your customer-facing KPIs fall into three categories:

- a. **Quality** – number of returns – number of repairs – length of service (tyre mileage).  
What could you measure similar to these?

- b. **Speed Of Delivery** (or speed of response, or both) – on-time deliveries – minutes til return of calls – job turnaround time. What could you measure similar to these?
- c. **Customer Care** (customer service) – customer feedback score – customer complaints – testimonials received – customer recommendations received – 5-star reviews on Amazon or TripAdvisor or similar. What could you measure similar to these?

What else could you measure that reflects your customer views?

### 3. Work out your sales and marketing predictors

The growth of your business means you must generate enquiries from new prospective customers (marketing). What are your best marketing KPIs?

You must also convert these enquiries to paying customers (sales). Which KPIs show you how well your business is at selling?

Your business and your industry sector will have unique types of sales and marketing KPIs specifically relevant to you.

**For example:** The marketing and sales KPIs for a steel tube foundry will be different from a hairdresser business.

Two extremes we know but you must work out the best marketing and sales KPIs for your unique business. (NB It is also healthy to look at other sectors for inspiration for the best KPIs).

If you want any help with working out your best KPI's please let us know.

Here's some ideas to get you thinking:

Business Type	Marketing KPIs	Sales KPIs
Retailer	Number of daily visitors to the store – time in store – floors visited – coupons submitted – website visitors – sample requests – brochure requests...	Number of items bought – value of items bought – time between purchases – warranties bought – time with sales staff –brochure follow ups – sample follow ups...
Furniture Manufacturer	Website visitors – information pack requests – exhibition stand visitors – no. of referral requests – no. of referrals given – no. of brochure point of sale displays – newsletters sent out – press coverage column centimetres – joint venture displayse with fabric companies...	Enquiries received – items on display per store – no. of stores with display items – sales agent visits to stores – exhibition stand visitor follow-up calls...
Plumber	Business cards posted per week – no. of requests for quotes – website visitors – referral requests – no. of meetings/calls with builders and other contractors –	Number of emergency call outs – no. of planned jobs – quotes submitted – quotes won – no. of referrals given to other contractors...

Plumbers cnt'd...	no. of case studies captured and shown on web site – website downloads of 'better bathroom' report...	
Advertising Agency	Newsletters sent out – press coverage column centimetres – awards won – no. of case studies produced – no. of networking meetings attended – no. of seminars presented...	Number of requests to pitch – no. of pitches converted – email open rates - click-through rates - telephone follow up calls...
Precision Engineer	Number of networking events – press coverage column centimetres – no. of case studies produced – press coverage column centimeters – no. of exhibition stand visitors...	Number of meetings with buyers – no. of meetings with designers – no. of requests to quote – no. of exhibition visitor follow up calls and meetings – no. of test samples created/submitted...
Recruitment Consultant	Number of candidate calls made – no. of employer calls made – no. of candidate interviews made – no. of employer meetings held...	Number of job opportunities identified – no of 1 <sup>st</sup> interviews – no. of 2nd interviews – no. of offers made – no. of offers accepted – no. of live jobs – no. of paid-for 'search' opportunities live...

### 3. Work out your cost and cash predictors (KPIs)

Let's deal with cost KPIs first.

You are likely to have one, two or three costs that dominate the money you spend to run your business. It could be salaries or staff turnover. It could be fuel or other raw materials. It could be capital investment costs. What are yours?

Business Type	Most likely key cost predictors
Retailer	Profit per square foot by department; stock turnover by department; employee costs as percentage of revenues (by department).
Furniture Manufacturer	Raw materials; employee costs; equipment finance costs;
Plumber	Travel costs per job; equipment costs; employee costs; insurance; training.
Advertising Agency	Employee costs as percentage of revenues; event costs; staff turnover cost.
Precision Engineer	Capital equipment finance costs; employee costs; design lead time costs.
Recruitment Consultant	Employee costs as percentage of revenues; event costs; staff turnover costs.

Like the famous saying advises:

*“Turnover is vanity, profit is sanity and cash is reality”*

And because cash is king in every business you'll want to know every day, every week or every month how well your cash collection is working. What KPIs show you this?

What cash KPI's, when they improve, will improve the flow of cash into your business?

### **Cash Predictor Examples:**

- Total debtors – the value of money owed to you
- Total debtors over 30 days; over 60 days; over 90 days
- Total income on Direct Debit or Standing Order or Credit Card
- Cash transactions
- Amounts paid in 7 days or less

Your industry will have an 'expected' way of doing business and getting paid. It can often be worth challenging these norms and seeking alternatives. For example; Microsoft Office used to be bought by customers in one transaction up front – now with Microsoft 365 they have an annual renewable licence fee (in advance).

## **4. Add in your key financials**

You know these already but it makes sense to show these on your business one page plan too. It's good to have confirmation on the hard facts about the three numbers that tell you how well you did historically –

- Turnover
- Cash in bank
- Profitability

Tracking these numbers monthly can also help drive you to take action on your other KPIs.

## **5. Track your KPIs every month (at least) and take action to improve them**

*Predictive Measurement is not enough. Take action to improve your numbers!*

Tracking and reviewing your KPIs is only half the job! Like the miner with a collapsed canary, unless the miner takes action he won't live to mine another day.

Action is the key to your future success.

Your Business One Page Plan using your chosen Key Predictive Indicators will show you the way.