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## MASTERING MARKETING



### Applying the Pareto Principle in Your Marketing—the 80/20 Rule

In 1906, an Italian economist named Vilfredo Pareto created a mathematical formula to describe the unequal division of wealth in his country. The Pareto principle (also known as the 80/20 rule or the law of the vital few) states that in many cases, roughly 80% of the effects of an action comes from 20% of the causes. Pareto showed that approximately 80% of the land and wealth in Italy was owned by 20% of the population. Here are some examples you may have already experienced in your business:

- ▶ 80% of your sales volume is generated by 20% of your customers
- ▶ 80% of your revenues are generated by 20% of your products
- ▶ 80% of your complaints come from 20% of your customers
- ▶ 80% of your quality control issues involve 20% of your products

Later he discovered that virtually all economic activity was subject to this principle. Pareto's 80/20 rule is now used to describe almost any type of output in the real world. In particular, we can apply it to our marketing and productivity outcomes. Here's how:

#### **Mining Your Customer Analytics**

Who are those customers in that 20% that generate 80% of your sales? If you can identify the characteristics of your top 20% of customers, then you can find more customers like them and

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grow your total sales. Apply the R-F-M Rule. Check your sales log to look up who bought most recently, bought more frequently, and who spent the most money. That's a big chunk of your top 20% of customers. Focus your marketing message on them.

### **Get Stingy with Your Time**

We're all tempted to waste our time trying to please all our customers instead of the most profitable ones. Then there is our "to do lists". Crossing items off a long jobs list may be satisfying, but the 80/20 rule applied to our list suggests we need to prioritize where we spend our time. Prioritize handling your larger items that will generate the most significant results first. The small items still need attention but not at the risk of neglecting the most productive actions.

When evaluating your mid-season goals, focus on a few goals or activities that are most critical to your success. Just like your to-do-list, not all duties and goals are created equal.

Check your on-line analytics to see which blog post, Facebook posting, or other social media posting generated the best results. Make more posts similar to those and incorporate tools such as videos and more pictures in your postings. Also check out Google Analytics to find the ranking of the keywords on your website. Consider that 80% of your web visitors came there from 20% of your listed keywords.

### **Product Development**

Determine your "Hot Sellers", those items that make up 80% of your sales. These are the core products that you should work to enhance, promote, advertise, and push. That's not to say you shouldn't develop new products or diversity your offerings. Perhaps seasonal items or an alternative package size is a good fit for a new product. Realize that offering an entirely new product line will need additional time, resources, and staff support. Don't ignore opportunities to add new items to your inventory, but don't neglect your already branded items.

### **Conclusion**

The Pareto Principle is not a law. The rule is a useful construct when analyzing your efforts and outcomes. Apply it with caution to your production and marketing efforts but; do apply it.