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## “80/20” Planning—Maximising your Profit easily

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by Dr Ian Dover, Alitek Consulting,

Nearly everyone has heard of the “80/20” Rule. This rule was first mooted by 19<sup>th</sup> Century economist Vilfredo Pareto as his “pattern of predictable imbalance.” It suggests simply that around 80% of the effect comes from 20% of the causes.

In business, you can see this rule operate in your sales figures—80% of your sales come from 20% of your customers. Also, 80% of your profit comes from 20% of your products or services. And of course 80% of your hassles will come from 20% of your customers or your products.

If you run a manufacturing operation, then 80% of your downtime will come from 20% of the possible causes for downtime. In retail, 20% of your suppliers will account for 80% of your costs. The application of this rule goes on and on.

I came across the 80/20 rule applied to company performance when I was first involved in helping companies in difficulty some years ago. If you need to make a big positive impact in a hurry, then apply the 80/20 rule across the main value-adding activities of the company and you will be well under-way.

Of course it’s not just companies in trouble that can benefit from applying the 80/20 rule. When healthy companies apply the 80/20 rule to their business, the results can be spectacular.

***The benefits of 80/20 planning are many. Some of the main ones are:***

- most importantly, identifying the 20% of issues which can lead to 80% of the potential improvement tells you where to concentrate—this gives you peace of mind that the important things are covered, and you spend less time fighting fires!
- According to the 80/20 rule, 20% of the time you put to planning activities should provide you with 80% of the plan—very effective for companies with few spare resources for planning

- if 20% of your staff can be brought into the planning process in some way, then these people will be able to communicate the outcomes to the other 80%—a boon in implementing the plan

- communicating a few (20%) extremely important things to your staff will do wonders in aligning the staff with your strategic direction, so that you can be much more effective in the extremely important leadership attribute of delegating

- the end-result is a plan which is no longer than a few pages, and which can be summarised on one page only, encapsulating your direction, your key strategies and short-term action—powerful stuff!

If you happen to be in a rapidly changing business environment, as a result of new technology or legislation changes or demographic changes, the 80/20 process is ideal for planning your business. The need to easily update your plan is paramount and this can be done in a few hours whenever required. You will learn to move rapidly to gain an advantage over your competitors.

Business and strategic planning have been around for many years. But the commonly-applied processes have generally been developed for large, complex organisations and do not fit the ethos of the average Australian small-to-medium enterprise (SME). 80/20 planning has been developed in Australia and overcomes these problems by bringing planning back to basics.

***So how does it work?*** The essence is the simple “NOW-WHERE-HOW” problem solving process. What is our situation NOW? If we assume an ideal solution to the problem, then WHERE should we end up? What steps are then required to show us HOW to get from Now to Where? Addressing all improvement opportunities by this process will ensure that we identify the right things to do—before we worry about doing those things right.

***The key management “tools” used in the process are:***

- an 80/20 analysis of your existing business activities to determine the vital few things that deliver the greatest benefit
- internal and external business intelligence to identify the key trends over the coming years that will influence just what activities will be most attractive to you
- determining your competitive advantages, or how to get some!
- determining your few critical business objectives
- how to develop the few (20%) priority strategies which will have greatest positive business impact eg for marketing, operations and finance
- gaining advantage from better “intelligence” about your business and markets.

These management “tools” and others are transferred to you during a 1-day 80/20 Action Learning programme. They not only allow you to plan for your business, but also to apply them to the myriad of smaller improvement opportunities within your business and personal life. And you can pass these techniques on to your staff.

Alitek has been improving the performance of companies in a range of business sectors for many years. The 80/20 Planning process has been developed by Alitek’s consultants to give clients more return for their planning dollar. It uses many of the standard planning “tools”, but co-ordinates these in a totally new way to become an enjoyable and challenging experience. It is suitable for all business types.

The process may be run as an Action Learning workshop for a group of companies. Typically, 2-3 key people from each company attend. Alternatively, it is flexible enough to be applied to any one company via a workshop involving a number of *key* people from the company.

***It Works!***

Here’s what some people have said about the 80/20 Planning process:

*“It has certainly allowed me to focus on my own business unit, where I want to be and how to get there”—Andrew Genrich, Gold Coast*

*“At last somebody has finally got it right. [You] really did get the message across about strategic planning.”—Ron Hile, Coopers Plains.*

And the process does not have to stop at the end of the 80/20 workshop! Your action learning can be continued in the form of a series of short Update Workshops designed to take your targets for performance improvement (eg marketing, technology, people improvement) and develop actions to improve the performance of each of these.

If you have always thought of business and strategic planning as a complex, time consuming exercise, please think again. The 80/20 Planning process gets results by focusing on the few issues that will have the greatest impact. As long as you get into this habit regularly, you will have a “continuously improving” plan as time goes on.

***Happy Planning!*** PS If you have already made an investment in a software package for business planning, you can use the tools and techniques in the 80/20 Planning Process to give you the best input into that software. Many businesses use the software tools to improve the presentation of their plans for those important