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VIDEOCAST NOTES #014

UNDERSTANDING THE 80/20 RULE (THE PARETO PRINCIPLE)

CONDENSED NOTES & KEY TAKEAWAYS

Follow these notes along with the presentation: [Simplified 80/20 Rule](#)

Where does the 80/20 rule show up for business owners?

- The simple answer is everywhere.
- As a decision maker your day to day is really defined by how well you make the decisions that confront us.
- The rule is a way of looking at the inputs versus the outputs, and realizing that it's not a direct correlation.
- Because of that, it opens up an opportunity to reinvest time and money to have a much greater output.
- There can be snags along the way which can trip people up, and we'll talk about later.

What are some of these things that you see popping up (that trip people up along the way)?

- One of the most common one's is in marketing. Getting clients, and the clients you're trying to get in the first place.
- The right clients end up appreciating what you do. They like the way you do business, the like the exact services you • provide, and there's a high return on investment for what you do for them—so it's a big win-win.
- A lot of people will choose the wrong kinds of customers.
- If you choose a win-win situation, the sales process part of the business becomes really simple.
- Those activities are different...
 - Some people will think that a certain activity of marketing is essential, but frankly when you look at the numbers—it's not.
 - If you reinvested time and money to get clients that way—you'd see there are other activities that can be used to a much greater effect.
 - It's about using the right strategies to get the right

clients with marketing. And also knowing exactly who to go after. This is one of the first things that people need to focus on.

For marketing what is the 80 and what's the 20?

- The core concept here is that it's not always direct.
- First step is to clearly define what you put in and put out.
- You'll need to distinguish between time and money (reinforcing loop).
- You can have the loop repeat itself, and scale up.
- Who is that ideal client? Talk to them clients. Who did you like working with most? Who are your raving fans?
- Like attracts like!!
- Figuring out who your best client is: Use a buyer persona!
 - [What is a buyer persona and why do I need one?](#)
 - Example: New website. You get to see a scalable message to who you are online.
 - The inputs available to us CHANGE. Adapting is everything!

Do you have any tips on how to look at the inputs versus the outputs?

- Using the example of marketing...it's one of 5 parts of every business.
- Every business is bottlenecked in one major way.
 - If you fix one, another one shows up somewhere else.

This week's special guest:
Leo Manzione of Run Right Consulting

Leo Manzione, a Coach and Coaching Coordinator as well as Director of Marketing for Run Right Consulting, lives to help people succeed. Run Right Business Consulting is a unique firm that takes a worldwide, strategized approach to their business and their clients.



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- It's tough to take a look at your business and see what's limiting.
- One common phenomenon, is if someone misdiagnoses the bottleneck. Example:
 - You get a new website, and end up getting a ton of leads - but it's the wrong clientele.
 - This hurts the business.
 - Sure, they needed more leads, but they needed to focus on something else: value creation.
 - Value creation: Making sure what you're selling is what your target market wants to pay for.
- Some other common possible limitations (bottlenecks) to your success:
 - Not having something that resonates with your target market
 - Just not meeting enough people
 - Bad closing ratios (in sales)
 - Value delivery - many don't have a process that is a reinforcing loop
 - Finance - mismanaging money (expenses), you'll spend money on things that you think are required but are not

Who is Vilfredo Pareto?

Vilfredo Federico Damaso Pareto was an Italian engineer, sociologist, economist, political scientist, and philosopher, now also known for the 80/20 rule, named after him as the Pareto principle.

Pod studies, not podcasts?

- Vilfredo noticed that 20% of his pea pods were producing 80% of the peas.
- That is the foundation of this principle.

- This is not new!

What is the reinforcing loop?

- Example: The best kind of marketing is a coin operated marketing system.
 - Essentially, you put in money and you get a customer out.
 - The customer gives you more because of the services you render. More coins.
 - Now you have more coins to put in.
 - You put in two and you get two customers.
 - Now there's 4 and it multiplies up!
- With a reinforcing loop like this, one of the risks is that a business can grow out of control.
 - The 5 parts of every business need to grow in tandem.
 - If one outgrows the other, the rest of the business sometimes just doesn't have the time to catch up.
- This is why the Pareto Principle can be so powerful.
 - It not only ties the action to the affect, so then we see what actions we want to take more moving forward, but by looking at the results.
 - We can take more actions and take more affects.

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The rule doesn't always need to be 80 / 20, it could be 60 / 40!

- Let's say this is someone's marketing budget.
 - Setting up a basic website is just something you haven't done. Maybe you'll wait until later...
 - Say your vital task was actually setting up this website.
 - Say you saved up 20% to invest, now you've added 5x the output by having a professional website.
 - It's a great example of scalable marketing.

THE WINS

The nice things about wins...

- Looking at these gives you more energy to invest.
- The more you do this the more you have to invest!
- This helps you to put in more.
- This invigorates you to experiment.
- It's not that there's a right or wrong way, there's a better way.
- You look at what you're putting in, and evaluate this with experienced people, then figure out what is the best use of your time and budget.
- Figuring out what those are helps you cut out the trivial tasks...

Trivial Tasks

Cutting out the trivial tasks...

- It might seem dangerous, "I can't afford to lose 20% of results"...
- But you CAN reinvest! You're then multiplying your outputs...

Multiplying Your Outputs

- This makes work FUN!
- The fun adds MEANING!
- The fun makes the work WORTH IT!
- This is the way it SHOULD BE!
- The opportunity cost of having life NOT be like this—it's a sad place to be. BUT you can GET OUT of it!

Honorable Mentions

- [Entrepreneur Hour Podcast](#)
- [Run Right Consulting](#)
- [Leo Manzione](#)
- [Smack Happy Design](#)

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