



EXECUTIVE  SUMMARY
SERIES

THE SUMMARY OF
THE 80/20 PRINCIPLE

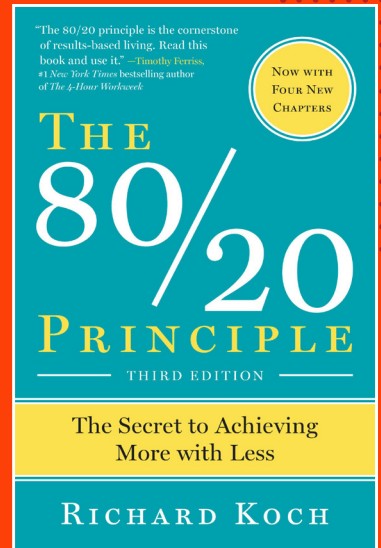
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PART ONE • Overture

1. Welcome to the 80/20 Principle

The 80/20 Principle can and should be used by every intelligent person in their daily life, by every organization, and by every social grouping and form of society. It can help individuals and groups achieve more, with much less effort. The 80/20 Principle can raise personal effectiveness and happiness. It can multiply the profitability of corporations and the effectiveness of any organization. It even holds the key to raising the quality and quantity of public services while cutting their cost. The 80/20 Principle is one of the best ways of dealing with and transcending the pressures of modern life.

The 80/20 Principle asserts that a minority of causes, inputs, or effort usually lead to a majority of the results, outputs, or rewards. Taken literally, this means that, for example, 80 percent of what you achieve in your job comes from 20 percent of the time spent. Thus, for all practical purposes, four-fifths of the effort—a domi-



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nant part of it—is largely irrelevant. This is contrary to what people normally expect.

There is an inbuilt imbalance between causes and results, inputs and outputs, and effort and reward: a typical pattern will show that 80 percent of outputs result from 20 percent of inputs; that 80 percent of consequences flow from 20 percent of causes; or that 80 percent of results come from 20 percent of effort.

In business, 20 percent of products usually account for about 80 percent of dollar sales values and so do 20 percent of customers; 20 percent of products or customers usually also account for about 80 percent of an organization's profits.

In society, 20 percent of criminals account for 80 percent of the value of all crime. 20 percent of motorists cause 80 percent of accidents. 20 percent of those who marry comprise 80 percent of divorce statistics. 20 percent of children attain 80 percent of educational qualifications available.

In the home, 20 percent of your carpets are likely to get 80 percent of the wear. 20 percent of your clothes will be worn 80 percent of the time. 80 percent of the energy wasted by the internal combustion engine in a car is wasted in combustion and only 20 percent gets to the wheels; this 20 percent of the input generates 100 percent of the output.

The pattern was discovered in 1897, about a hundred years ago, by Italian economist Vilfredo Pareto (1848-1923). His discovery has since been called many names, including the Pareto Principle and the Principle of Least Effort; throughout this book we will call it the 80/20 Principle.

The overriding message of this book is that our daily lives can be greatly improved by using the 80/20 Principle. For everyone and every institution, it is possible to obtain much more that is of value and

avoid what has negative value, with much less input of effort, expense, or investment. At the heart of this progress is a process of substitution. Resources that have weak effects in any particular use are not used, or are used sparingly. Resources that have powerful effects are used as much as possible. Whenever possible, weak resources are developed so that they can mimic the behavior of the stronger resources.

One may ask: why would a business continue to make the 80 percent of products that only generate 20 percent of profits? Companies rarely ask these questions, perhaps because to answer them would mean very radical action: to stop doing four-fifths of what you are doing is not a trivial change.

2. How to Think 80/20

The 80/20 numbers are only a benchmark, and the real relationship may be more or less unbalanced than 80/20, but in most cases the relationship is much more likely to be closer to 80/20 than to 50/50. Every person I have known who has taken the 80/20 Principle seriously has emerged with useful, and in some cases, life changing, insights.

Application of the 80/20 Principle implies that we should do the following:

- Celebrate exceptional productivity, rather than raise average efforts
- Look for the short cut, rather than run the full course
- Exercise control over our lives with the least possible effort
- Be selective, not exhaustive
- Strive for excellence in few things, rather than good performance in many
- Delegate or outsource as much as possible in our daily lives and be encouraged rather than



penalized by tax systems to do this (use gardeners, car mechanics, decorators, and other specialists to the maximum, instead of doing the work ourselves)

- Choose our careers and employers rather than being employed ourselves
- *Only* do the thing we are best at doing and enjoy most
- Look beneath the normal texture of life to uncover ironies and oddities

- In every important sphere, work out where 20 percent of effort can lead to 80 percent of returns
- Calm down, work less and target a limited number of very valuable goals where the 80/20 Principle will work for this, rather than pursuing every available opportunity
- Make the most of those few “lucky streaks” in our life where we are at our creative peak and the stars line up to guarantee success.

PART TWO • Corporate Success Needn't Be a Mystery

3. The Underground Cult

It is difficult to gauge the extent to which the 80/20 Principle is already known in business. But the way it is applied to business has one key theme—to generate the most money with the least expenditure of assets and effort.

The classic economists of the nineteenth and early twentieth centuries developed a theory of economic equilibrium and of the firm that has dominated thinking ever since. The theory states that under perfect competition firms do not make excess returns, and profitability is either zero or the “normal” cost of capital, the latter usually being defined by a modest interest charge. This theory is internally consistent and has the sole flaw that it cannot be applied to real economic activity of any kind, and especially not to the operations of any individual firm.

In contrast to the theory of perfect competition, the 80/20 theory says in any market, some suppliers will be much better than others at satisfying consumer needs. These suppliers will obtain the highest price realizations and the highest market shares. Over time,

80 percent of the market will tend to be supplied by 20 percent or fewer of the suppliers, who will normally also be more profitable. In the real world, there are always changes to market structure caused by competitor's innovations. Both existing suppliers and new suppliers will seek to innovate and obtain a high share of a small but defensible part of each market (a “market segment”). Within each of these segments, the 80/20 laws of competition will operate.

4. Why Your Strategy is Wrong

Unless your firm is very small and simple, it is almost certainly true that you make at least 80 percent of your profits and cash in 20 percent of your activity, and in 20 percent of your revenues. The trick is to work out *which* 20 percent.

The 80/20 Principle suggests that your current strategy is wrong. If you make most of your money out of a small part of your activity, you should turn your company upside down and concentrate your efforts on multiplying this small part.



The best way to examine the profitability of your business is to break it down into *competitive segments*. While analyses by product, customer, or any other relevant spit are usually very valuable, the greatest insights come from a combination of customers and products into “dollops” of business defined with reference to your most important competitors.

It is also undoubtably true that the best way to start making money is to stop losing money.

5. Simple is Beautiful

The truth is that the unprofitable business is so unprofitable because it requires the overheads and because having so many different chunks of business makes the organization horrendously complicated. It is equally true that the very profitable business does not require the overheads, or only a very small portion of them. You could have a business solely composed of the profitable business and it could make the same absolute returns, provided that you organized things differently.

A complex business can be made more simple and returns can soar. All it takes is an understanding of the costs of complexity (or the value of simplicity) and courage to remove at least four-fifths of lethal managerial overhead.

Because business is wasteful, and because complexity and waste feed on each other, a simple business will always be better than a complex business. Because scale is normally valuable, for any given level of complexity, it is better to have a larger business. The large and simple business is best.

The way to create something great is to create something simple. Anyone who is serious about delivering better value to customers can easily do so by reducing complexity. Any large business is stuffed full of passengers—unprofitable products, processes, sup-

pliers, customers, and, heaviest of all, managers. The passengers obstruct the evolution of commerce. Progress requires simplicity and simplicity requires ruthlessness. This helps to explain why simple is as rare as it is beautiful.

6. Hooking the Right Customers

The 80/20 Principle is essential for doing the right kind of selling and marketing and for relating this to any organization’s overall strategy, including the whole process of producing and delivering goods and services. There are three golden rules:

Marketing, and the whole firm, should focus on providing a stunning product and service in 20 percent of the existing product line—that small part generating 80 percent of fully costed profits.

Marketing, and the whole firm, should devote extraordinary endeavor toward delighting, keeping forever, and expanding the sales to the 20 percent of customers who provide 80 percent of the firm’s sales and/or profits.

There is no real conflict between production and marketing. You will only be successful in marketing if what you are marketing is different and, for your target customers, either unobtainable elsewhere, or you provide a better product/service/price package. If these conditions do not apply, your only hope is to innovate, and all innovation is product led.

Making use of 80/20 structural influences can turn mediocre salespeople into good ones and good ones into superstars. Identify your top salespeople and hire more like them. Identify when the top salespeople sell the most and what they did differently then. The impact of a better salesforce on a firm’s bottom line is immediate. Even more important is the longer-term impact on market share and customer delight of a salesforce pulsating with energy

and confidence, determined to deliver the best to the core customer group, but still able to listen to what they really want.

Some customers are vital. Most are not. Some sales efforts are wonderfully productive. Most are inefficient. Some will lose you money. Channel marketing and sales effort where you can offer a minority of potential customers something that is unique, better, or much better value than they can obtain elsewhere, provided that you can make higher profits in the process. Any successful enterprise draws its success from this simple, and simplifying, principle.

7. The Top 10 Business Uses of the 80/20 Principle

The versatility of the 80/20 Principle is legion: it can be used in almost any area of function to direct strategic and financial improvement.

1. Strategy
2. Quality
3. Cost reduction and service improvement
4. Marketing
5. Selling
6. Information technology
7. Decision making and analysis
8. Inventory management
9. Project management
10. Negotiation

By now you will have realized that the 80/20 Principle cuts across whatever boxes we create. The insights derive from the living reality behind people, behind business, and behind the world in which business operates. The 80/20 Principle is so perva-

sive because it is a reflection of deeper forces ruling our existence.

8. The Vital Few Give Success to You

The 80/20 Principle comprises radar and autopilot. The radar gives us insight: it helps us spot opportunities and dangers. The autopilot allows us to stroll around our business arena and talk to customers and anyone else who might matter, knowing that we are still in control of our destiny. The logic of the 80/20 Principle requires us to grasp and internalize a few simple points; we can then easily “think 80/20” and “act 80/20” whatever we are doing.

A few things are always much more important than most things. Unless we have real numbers or 80/20 thinking to guide us, most things always appear more important than the few things that are actually more important. Even if we accept the point in our minds, it is difficult to make the next hop to focused action. Keep the “vital few” in the forefront of your brain. And keep reviewing whether you are spending more time and effort on the vital few than the trivial many. Progress means moving resources from the low-value to high-value uses.

The 80/20 Principle has proved its worth in business and in helping business to startling success in the West and in Asia. Yet the 80/20 Principle is a principle of life, not of business. It originated in academic economics. It works in business because it reflects the way the world works. Whenever it has been tested, inside or outside the business arena, it works equally well.

So there we have it. Think 80/20 and act 80/20. Those who ignore the 80/20 Principle are doomed to average returns. Those who use it must bear the burden of exceptional achievement.

PART THREE • Work Less, Earn and Enjoy More

9. Being Free

The 80/20 Principle, like the truth, can make you free. You can work less. At the same time, you can earn and enjoy more. The only price is that you need to do some serious 80/20 Thinking. This will yield a few key insights that, if you act on them, could change your life.

The beauty of 80/20 Thinking is that it is pragmatic and internally generated, centered around the individual. There is a slight catch. *You* must do the thinking. You must “editionize” and elaborate what is written here for your own purposes. But this shouldn’t be too difficult. The insights from 80/20 Thinking are few in number but very powerful.

The objective of 80/20 Thinking is to generate action which makes a sharp improvement in your life and that of others. The common attributes of 80/20 Thinking are that it is reflective, unconventional, hedonistic, strategic, and nonlinear; and that it combines extreme ambition (in the sense of wanting to change things for the better) with a relaxed and confident manner. It is also on the constant lookout for 80/20-type hypothesis and insights. It only takes action on a few insights to improve greatly the quality of your life.

10. Time Revolution

You can only spend time on high-value activities (whether for achievement or enjoyment) if you have abandoned low-value activities. Be ruthless in cutting out these activities.

Top Ten low-value uses of time

1. Things other people want you to do
2. Things that have always been done this way
3. Things you’re not unusually good at doing
4. Things you don’t enjoy doing
5. Things that are always interrupted
6. Things few other people are interested in
7. Things that have already taken twice as long as you originally expected
8. Things where your collaborators are unreliable or low quality
9. Things that have a predictable cycle
10. Answering the telephone

Top Ten highest-value uses of time

1. Things that advance your overall purpose in life
2. Things you have always wanted to do
3. Things already in the 20/80 relationship of time to results
4. Innovative ways of doing things that promise to slash the time required and/or multiply the quality of results
5. Things other people tell you can’t be done
6. Things other people have done successfully in a different arena
7. Things that use your own creativity
8. Things that you can get other people to do for you with relatively little effort on your part

- 9. Anything with high-quality collaborators who have already transcended the 80/20 rule of time, who use time eccentrically and effectively.
- 10. Things for which it is now or never.

Those who want a time revolution need to link together their past, present, and future—but behind the issue of how we allocate time lurks the even more fundamental issue of what we want to get out of our lives.

11. You Can Always Get What You Want

Work out what you want from life. In the 1980's phrase, aim to "have it all." Everything you want should be yours: the type of work you want; the relationships you need; the social, mental, and aesthetic stimulation that will make you happy and fulfilled; the money you require for the lifestyle that is appropriate to you; and any requirements that you may (or may not) have for achievement or service to others. You don't aim for it all, you'll never get it all. To aim for it requires that you know what you want.

20 percent of what we do leads to 80 percent of the results; but 80 percent of what we do leads to only 20 percent. We are wasting 80 percent of our effort on low-value outcomes. 20 percent of our time leads to 80 percent of what we value; 80 percent of our time disappears on things that little value to us. 20 percent of our time leads to 80 percent of our happiness; but 80 percent of our time yields very little happiness.

Remember the promise of the 80/20 Principle: if we take note of what it tells us, we can work less, earn more, enjoy more, and achieve more. But to do this, we must start with a rounded view of everything we want. Then pursue those few things where you are amazingly better than others and that you enjoy most.

12. With a Little Help from Our Friends

Without relationships we are either dead to the world—or dead. Our friendships are at the heart of our lives. It is also true that our professional relationships are the heart of our success.

There is a trade-off between quality and quantity and we consistently under-cultivate what is most important. The 80/20 Principle reveals:

- 80 percent of the value of our relationships comes from 20 percent of the relationships
- 80 percent of the value of our relationships comes from the 20 percent of close relationships that we form first in our lives
- We devote much less than 80 percent of our attention to the 20 percent of relationships that create 80 percent of the value

If you have had any success in life, you will (unless you are a blind egotist headed for a fall) recognize the crucial importance of allies in your achievements. But it is generally a safe assertion that at least 80 percent of the value of your allies comes from fewer than 20 percent of their number. You don't need many allies, but you need the right ones, with the right relationships between you and each of them and between themselves.

For both professional and personal relationships, fewer and deeper is better than more and less deep. One relationship is not as good as another. Seriously flawed relationships, when you spend a lot of time together but the result is unsatisfying, should be terminated as soon as possible. Bad relationships drive out good. There is a limited number of slots for relationships; don't use up the slots too early or on low-quality relationships. Chose with care. Then build with commitment.

13. Intelligent and Lazy

Rewards increasingly demonstrate the 80/20 Principle: the winners take all. Those who are truly ambitious must aim for the top in their field. Choose your field narrowly. Specialize. Choose the niche that is made for you. You will not excel unless you also enjoy what you are doing. Early in your career, learn all there is to be learned.

Ten Golden Rules for Career Success

1. Specialize in a very small niche; develop a core skill
2. Choose a niche that you enjoy, where you can excel and stand a chance of becoming an acknowledged leader
3. Realize that knowledge is power
4. Identify your market and your core customers and serve them best
5. Identify where 20 percent of effort gives 80 percent of returns
6. Learn from the best
7. Become self-employed early in your career
8. Employ as many net value creators as possible
9. Use outside contractors for everything but your core skill
10. Exploit capital leverage

If you do all this, you will have built your career into a firm, your own firm. Then use capital leverage to multiply its wealth.

14. Money, Money, Money

Money obeys the 80/20 Principle. It is no accident that Vilfredo Pareto discovered what we now know as the 80/20 Principle when he was researching the

distribution of incomes and wealth. He found that there was a predictable and highly unbalanced distribution of money. Money, it seems, dislikes being equally distributed. Oddly enough, certain categories of investment, and certain investment strategies, are predictably much better than others at creating wealth.

Money begets money. But some methods of breeding have much more prolific results. Samuel Johnson said that a man was never so innocently employed as when making money. His observation pitches the accumulation of wealth, whether through investment or a successful professional career or both, at the right moral level. Neither pursuit is to be denigrated but, equally, neither is a guaranteed passport to serving society or personal happiness. And both making money and professional success carry the dangers that they become ends in themselves.

To succeed, you must aim for the top. To get there, you must turn yourself into a business. To obtain maximum leverage, you must employ a large number of people. To maximize the value of your business, you must use other people's money and exploit capital leverage—to become even larger and more profitable. Your circle of contacts expands and the time for friends and relationships contracts. On the giddy roundabout of success, it is easy to lose focus, perspective, and personal values. It is a perfectly rational response to say, at any stage, stop success: I want to get off!

15. The Seven Habits of Happiness

Can the 80/20 Principle apply to happiness? I believe it can. Here are two ways to be happier:

- Identify the times when you are happiest and expand them as much as possible.
- Identify the times when you are least happy and reduce them as much as possible.

After you have removed—or at least set in motion plans to remove—the causes of unhappiness, concentrate most energy on the positive seeking of happiness. For this, there is no time like the present. Happiness is profoundly existential. Happiness only exists now and can only be experienced in the “now.”

What we all need is a set of daily happiness habits, similar to (and in fact partially related to) our daily fitness or healthy eating regimen. My seven daily happiness habits:

1. Exercise
2. Mental stimulation
3. Spiritual/artistic stimulation/meditation
4. Doing a good turn
5. Taking a pleasure break with a friend
6. Giving yourself a treat
7. Congratulating yourself

In addition to your seven happiness habits, may I also suggest seven medium-term stratagems (short-cuts) for happiness:

1. Maximize your control
2. Set attainable goals
3. Be flexible
4. Have a close relationship with your partner
5. Have a few happy friends
6. Have a few close professional alliances
7. Evolve the ideal lifestyle you (and your partner) want.

Happiness is a duty. We should choose to be happy. We should work at happiness. And in doing so, we

should help those closest to us, and even those who just stumble across us, to share our happiness.

16. Your Hidden Friend

Our hidden friend is something we all possess. It gives fantastic results from almost no effort. Our hidden friend largely determines our success and happiness—and yet very few of us use our friend to anything like its potential.

I speak of the mind, and in particular, the most powerful and 80/20 part of it, our subconscious friend, which can be our powerful ally, if we learn to appreciate and program it properly.

Our conscious mind, then, deals with the peculiarly human qualities of reasoning and thought, while the subconscious mind comprises our reptilian and mammalian capabilities, dealing with all the bodily functions that keep us alive (reptilian) and with our emotions and memories (mammalian).

The subconscious deals with pictures and emotions; the conscious mind with reason and logic. Our decisions are nearly always made on emotional grounds, and our conscious thoughts—as expressed in what we say and write—largely determines our emotions. We must be careful what we think!

If we access the subconscious astutely, it will yield enormous results with no conscious effort and help us attain fantastic goals. The subconscious supplies the emotions and memories that supply creativity. People who write down their goals and review them frequently are much more likely to attain them. (Although it is a separate question whether or not you *should* set goals for yourself. Maybe wait until you have a goal or goals shouting at you.) Unity between our conscious mind and subconscious mind brings serenity.

The first stage to tapping the subconscious is to identify what we want the subconscious to do for us. The second stage is getting our thoughts over to our subconscious mind. The third stage is to get the answer or output back from the subconscious.

Once you learn the power of the subconscious, help your friends and family to do the same. Never will such little effort reap such great benefits.

PART FOUR • The 80/20 Future

17. Success Through 80/20 Networks

Networks behave in an 80/20 way—in the way characteristic of 80/20 distribution. And often in an extremely lopsided way. If we don't understand 80/20 and networks, we don't understand the most profound change in business and society happening in our lifetimes.

Networks are different from traditional top-down organizations, which depend on initiative from the top of those organizations. Traditional organizations cannot grow without planning from the top and implementing those plans. Growth in networks comes from outside the organization (if there is an organization)—coming relatively easily from member activity.

A second cardinal aspect of a network is that it becomes more valuable as it grows in size. A dating platform with 1,000 members offers a possible 499,000 possible dates; if that network doubled in size to 2,000 members, the value goes up about four times for members—allowing 1,999,000 possible permutations. Third, networks can gain value super fast—and bigger networks are better networks. Finally, networks are fueled by cascading information and technology innovations.

Networks operate in line with the 80/20 Principle because a very small proportion of networks in any given market or category—often somewhere

between 1 to 20 percent—will hold sway over a large proportion of activity or business in that market or category (the 80 to 99 percent).

18. When 80/20 Becomes 90/10

The world of 90/10 and the trend from pipeline economies to networks has three interrelated and compounding trends toward greater and greater business concentration, and especially concentration of profits, within fewer and fewer hands:

1. The trend toward a higher proportion of activity—especially highly remunerative activity—within networks.
2. The trend within network markets from 80/20 to 90/10 and even more warped degrees of concentration.
3. Within any particular network or network-based firm there will be a trend over time for the terms of trade to slide in favor of the network monopolist or near-monopolist. Over time, customers—both consumers and other businesses—will pay more, and those that dominate the network will make even larger fortunes.

There's a big potential advantage for everyone who works to identify network businesses before they get big. If they are growing fast and the leaders in their niche—however tiny they are today—such ventures may well become big. If you can engineer it some-

how, it makes sense to work for them, getting in on the ground floor and then growing with them. There is SO much more opportunity in fast-growing firms because they are making it up as they go along. Even a very small fraction of the firm could make you rich. If I had known when I started my career how wonderful small, fast-growth network ventures could be, I would never have worked for in any other kind of firm.

19. Your Place in the 80/20 Principle

Your 80/20 future is completely uncharted territory; it is challenging, thrilling, and exhilarating. It is uncharted because it exists in your own mind, and the minds of your closest friends and colleagues—and nowhere else. No one can prosper in the 80/20 or 99/1 future with solutions that worked in the 60/40 or 65/35 past. Here are the five most potent hints that I have discovered in four decades of searching:

- Only work in networks
- Small size, very high growth
- Only work for an 80/20 boss
- Find your 80/20 idea
- Become joyfully, usefully unique

So what, then, do we make of the 80/20 future? Though it can be challenging, it is unequivocally a good thing. The 80/20 future is the very opposite of a slave society and qualitatively different from, and better than, the ordered industrial society it is replacing.

There is a huge delight in creating a great deal with very little, and doing it through our unique mind-power. The job description of every 80/20 individual is to beget more with less, and to do it joyously and through unique knowledge and insight. This wonderful future is quintessentially personal, yet also supremely sociable. May we all experience it to the utmost.

PART FIVE • The Principle Revisited

20. The Two Dimensions of the Principle

There are two quite distinct—in some ways even opposite—dimensions or uses of the 80/20 Principle. On one hand, there is the *efficiency* dimension. This is where we want to achieve things in the fastest possible way with the least possible effort. Typically this domain involves things that are not hugely significant to us, except as a means to an end. For example, if we look on our work as mainly a means to earn money, because we want to do other things with other people, then work is firmly in the box of “efficiency.” We want to use the 80/20 Principle to get

our work done as productively and quickly as possible, and get on with our real life. So we would focus on the most productive 20 percent and as far as possible cut out everything else.

On the other hand, there is the life-enhancing dimension of the 80/20 Principle. What belongs in this box is anything that is truly important in our lives. This principle can help us confront what is really important in our lives. Who are the few people, what are the few things, which really make our life worthwhile? The 80/20 Principle clears away space for these fantastic facets of life. By doing the non-essential things more briskly and economically, with as lit-



the absorption of our life energy as we can contrive, we capture time, territory, and tranquility for the essential parts of life. Instead of having what matters crammed into the margins and corners of our life, we can put what's essential where it belongs, center stage, at the heart of our being.

The greatest thing about the 80/20 Principle is that you do not need to wait for everyone else. You can start to practice it in your professional and personal life. You can take your own small fragments of greatest achievement, happiness, and service to others

and make them a much larger part of your life. You can multiply your highs and cut out most of your lows. You can identify the mass of irrelevant and low-value activity and begin to shed this worthless skin. You can isolate the parts of your character, work style, lifestyle, and relationships that give you value and, having isolated them, you can, with no little courage and determination, multiply them. You can become a better, more useful, and happier human being. And you can help others to do the same.

