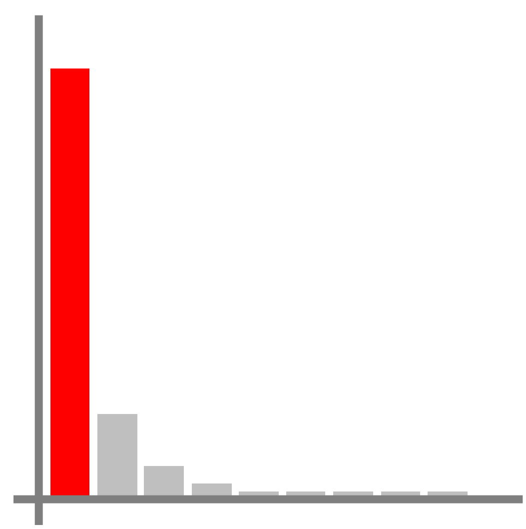
The brand strategists' toolkit #5

# The Pareto principle

(also known as the 80/20 rule)



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You don't need to be an economist to observe that life is unfair. But if your aim is to quantify how unfair it is, then a background in economics can come in helpful. At the turn of the 20th century, French-Italian economist Vilfredo Pareto observed that 80% of Italy's land was owned by 20% of its population. Subsequent study of wealth inequality led him to believe that the same 80/20 distribution could be universally applied to any society: regardless of whether he was looking at Italian property data, Parisian rental income distribution, or Swiss tax records, he saw pretty much the same pattern everywhere.

And that would most likely be the end of the story, were it not for Dr. Joseph M. Juran, an engineer-turned-management consultant who observed that this 80/20 distribution seemed to apply more universally than Pareto himself had realised. By the late 1940s he was convinced that it was:

*"A true "universal", applicable not only in numerous managerial functions but in the physical and biological worlds generally."*

While Pareto's observations had been limited to economics, Joseph Juran was happy to use Pareto's name as a shorthand for his more universal observation – although there are traces of regret in his later writing that he hadn't named the principle after himself. Either way, he deserves credit for its popularity.

Whoever it's named after, the 80/20 rule is a handy rule of thumb for brand strategists:

- If you want to get under the skin of a brand, look for the 20% of products, or divisions, or channels that generate 80% of the sales
- And if you REALLY want to get under the skin of a brand, compare this with the 20% of products or divisions that generate 80% of the profit… and 80% of the growth – the real story is often found in these comparisons
- If you want to identify a target customer segment, identify the 20% that contribute 80% of the profit
- And if you want to roll out a brand project successfully, look for the 20% of people who contribute to 80% of its social capital – and don't assume they are the most senior

My original plan was pretty much to stop there. There are myriad potential uses of the 80/20 rule and you don't need me to list them all out for you. But there are two footnotes to the story that are probably worth sharing for those who have the patience.

The first is that the 80/20 rule has a slightly more sophisticated rival: the 60/30/10 rule. I'm afraid I have no idea who created it, but it is often prescribed for allocating marketing budgets (spend 10% on strategy, 30% on creative and 60% on media), book writing (spend 10% of your time on planning, 30% on writing and 60% on marketing), social media engagement (spend 10% of your time creating content, 30% listening and 60% interacting meaningfully) and even presenting work (spend 10% context setting, 30% on the strategy and 60% on the creative response). It's an interesting evolution of the Pareto principle, as well as the rule of three: some interior designers swear by it when applying a colour scheme (60% of your room should be in a lead colour, 30% in a secondary colour, and 10% in an accent colour). In all honesty, I don't use the 60/30/10 rule as much as the 80/20 rule. Perhaps this is because I'm a little colour blind. Or maybe it's because the 80/20 rule helps me get to the point faster.

The second footnote concerns what happened next to Vilfredo Pareto. It turns out that his belief in the 80/20 rule took Pareto down a very dark path. Because every system of wealth and power distribution seemed to conform to the rule, he began to believe in its inevitability. In his view, any society – no matter where or when – would invariably and without exception be dominated by 20% of its population. As a consequence, he came to regard democracy as an illusion, progress as an impossibility, and any attempt to subvert the order of the 80/20 rule as doomed to fail. In this fatalistic view of the world, the majority of any system is bound to be wretched.

This is more than just a historical footnote: this sense of fatalism is faintly echoed in Joseph Juran's description of the 80/20 rule:

*"The vital few and trivial many."*

At this point it's important to point out that I am absolutely not suggesting in any way, shape or form that Joseph Juran shared Vilfredo Pareto's worldview or his politics. Quite the opposite: he dedicated his life to the transfer of knowledge between East and West for the betterment of all. His career reflects an altogether more positive outlook and a belief that applying the 80/20 rule to a system was the first step towards improving it. I suspect this is why the eponymous business Juran founded now prefers the term "useful many" to "trivial many". And that's a really important distinction to bear in mind. Because the "useful many" almost certainly contains sources of stability, pockets of opportunity and a deep well of latent talent.

If you're an investor, you might use it to place 80% of your assets in a low volatility investment like a treasury bond, and then place the remaining 20% in higher risk stocks with more growth potential. Similarly, you may find that your brand portfolio or your innovation pipeline or your talent base should target an 80/20 balance between solid, loyal, stable bets and risky, volatile potential game-changers. The point of applying the 80/20 rule is not to work out which parts of a system to care about and which to ignore. It's a way to understand inequality and manage differences:

*"The vital few and the useful many."*