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CHAPTERS

THE 80/20 PRINCIPLE

— THIRD EDITION —

The Secret to Achieving
More with Less

RICHARD KOCH

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—*Weston Review*, Tampa Bay, Florida

THE
80/20
PRINCIPLE

THE SECRET TO ACHIEVING
MORE WITH LESS

Expanded and Updated

RICHARD KOCH



CURRENCY
NEW YORK

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Published in the United States by Currency, an imprint of the Crown Publishing Group, a division of Penguin Random House LLC, New York.

crownpublishing.com

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Originally published in the United Kingdom by Nicholas Brealey Publishing, an imprint of John Murray Press, an Hachette UK Company, London, in 1997. First published in the United States by Currency Doubleday, an imprint of Penguin Random House LLC, New York, in 1998. This revised and updated edition, originally published in the United Kingdom in 2017, is published in the United States by arrangement with Nicholas Brealey Publishing.

Library of Congress Cataloging-in-Publication Data

Koch, Richard, 1950—

The 80/20 principle: the secret to achieving more with less /
by Richard Koch.

p. cm.

Includes bibliographical references and index.

1. Time management.
2. Labor productivity—Psychological aspects.
3. Industrial efficiency—Psychological aspects.

4. Conduct of life. I. Title.

HD69.T54K63 1998

650.1—dc21 97-37959

CIP

ISBN 9780385491747

Ebook ISBN 9780385528313

Cover design by Rex Bonomelli

v5.2_r1

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To Lee

“For a very long time, the Pareto law [the 80/20 Principle] has lumbered the economic scene like an erratic block on the landscape: an empirical law which nobody can explain.”

—JOSEF STEINDL

“God plays dice with the Universe. But they’re loaded dice. And the main objective is to find out by what rules they were loaded and how we can use them for our own ends.”

—JOSEPH FORD

“We cannot be certain to what height the human species may aspire...We may therefore safely acquiesce in the pleasing conclusion that every age of the world has increased, and still increases, the real wealth, the happiness, the knowledge, and perhaps the virtue, of the human race.”

—EDWARD GIBBON

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PREFACE TO THE EXPANDED AND UPDATED EDITION

The 80/20 Principle is marching on—not just this book, but the principle itself. In the past ten to twenty years, there have been incredibly significant changes in business, society, our personal lives, and in our understanding of how and why the 80/20 Principle operates. This has required a major addition to the book.

The principle has never been as ubiquitous or important as it is now. In the past, the principle gave those who used it a serious advantage. In the future it will be an *essential* tool—and probably *the* essential tool—for anyone who wants to succeed or be happy.

So what has happened in the past few years? Briefly, three things:

- 1 Top-down and large organizations are giving way—at least in the ability to generate high growth, profits, and cash—to networks, and to network ventures such as Apple, Google, Facebook, Uber, Amazon, eBay, and Betfair. These kinds of networks and network organizations are coming to dominate society and this is why 80/20 is becoming more prevalent.

All networks exhibit positive feedback loops—the big get bigger, the rich get richer, the famous get more famous, and networks benefiting the world (such as network businesses and the philanthropic organizations they often spawn) and those not benefiting the world (such as drug gangs and ISIS) become wealthier and more powerful.

The new Chapter 17 says what networks and network businesses are, and why nobody in their right mind—if they are ambitious—would work for anything but a network or a network business.

- 2 The 80/20 pattern that we have come to recognize for over a century—and which has been remarkably consistent, varying mainly between, say, 70/30 and 90/10—is rapidly increasing to 90/10 and 99/1.

The new Chapter 18 describes how the lopsided distribution of causes and results is becoming more acute, as improbable events and rapid transformation of fortunes become more possible and influential.

- 3 There are a few rules of thumb that make all the difference between success and failure, between personal fulfillment and personal angst, and between happiness and misery. The new Chapter 19 describes five mega-rules to live by.

There is one more thing that I have discovered. The greatest manifestation of 80/20 was not included in the early editions of this book. A new Chapter 16 describes “Your Hidden Friend,” which can exert a super-potent and amazingly favorable influence on your life. The hidden friend operates at extraordinary speed and impact for no conscious effort at all. And properly trained, your hidden friend can transform your life. This requires a little effort—the trick is to know how to do the training, the coding, of your hidden friend. Chapter 16 describes how.

So there we have it. Four great new chapters. Go forth and shout the good news about the principle from the rooftops.

The 80/20 Principle has already sold more than a million copies in thirty-six languages. I dare to hope and expect that this new edition—which I think is more valuable—will multiply that record.

For what has already been achieved, I am profoundly grateful to you, the readers—the beneficiaries, perhaps, but also the evangelists. I know from your messages and e-mails how mind-blowing so many of you are finding the principle. Long may it continue, and thank you all so much. I may have touched your lives, but you have certainly touched mine, and I am most grateful.

Richard Koch
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Gibraltar, March 2017

ACKNOWLEDGMENTS

This has been the most painful and well-researched book I have ever written. There is a certain irony here, since the 80/20 Principle tells us that I could have obtained a book 80 percent as good in 20 percent of the time. This would certainly have been my inclination, and only the reader can tell whether the extra effort has been worthwhile. I think it has, but I have lost all objectivity.

The effort involved has been much more collective than for any of my previous books. Don't believe the false modesty of those who write generously that their books have been "team efforts." In the end only an author (or authors) can write a book. But I want to thank some individuals without whom this book would either not have existed or would have been vastly inferior.

First is Mark Allin, then at Pitman Publishing and now my partner in Capstone Publishing, who first had the idea of the book.

Second is Nicholas Brealey, who has put so much intelligent effort into this book that I sincerely hope it pays off for him! According to the Von Manstein principle (see Chapter 13), people like Nicholas who are smart and industrious will not be as successful as those who are smart and lazy. To become a real star, Nicholas must work a great deal less. I have a theory that if he published half the number of books, and put all his effort into these, he'd make even more money. I hope my next book will not be one to get the axe! I am very grateful for his persistence on this book.

Sally Lansdell Yeung has been the “third person” collaborating to get the structure and text right. She is clearly a gifted publisher in her own right.

Next, my researcher on the book, Nick Oosterlinck, did a terrific job of reconstructing the history of the 80/20 Principle from 1897 to 1997. He has now disappeared from my radar screen, but if he would like to get in touch I would be delighted to dispense some champagne his way.

I should also thank not only Mr. Pareto for originating the 80/20 Principle, but also Mr. Juran, Mr. Zipf, Mr. Krugman, and the unsung heroes at IBM in the 1960s for elaborating it. And also the hundreds of people from all walks of life and disciplines who have written magazine articles about the 80/20 Principle, many of whom I have quoted extensively as evidence of the way in which the principle can be used. I have made every effort to acknowledge these people in the references, but if there are any omissions please accept my apologies and let me know so that correction can be made in any future editions. I am particularly grateful to David Parker, lecturer in managerial economics and business strategy at the University of Birmingham Business School, whose work on the application of chaos theory to business strategy is full of brilliant insights, many of which I have appropriated.

Finally, every true believer needs his trusted skeptics. Patrick Weaver and Lee Dempsey have fulfilled this role admirably, and it is much appreciated.

PART

ONE

OVERTURE

The Universe Is Wonky!

What is the 80/20 Principle? The 80/20 Principle tells us that in any population, some things are likely to be much more important than others. A good benchmark or hypothesis is that 80 percent of results or outputs flow from 20 percent of causes, and sometimes from a much smaller proportion of powerful forces.

Everyday language is a good illustration. Sir Isaac Pitman, who invented shorthand, discovered that just 700 common words make up two-thirds of our conversation. Including the derivatives of these words, Pitman found that these words account for 80 percent of common speech. In this case, fewer than 1 percent of words (the New Shorter Oxford English Dictionary lists over half a million words) are used 80 percent of the time. We could call this an 80/1 principle. Similarly, over 99 percent of talk uses fewer than 20 percent of words: we could call this a 99/20 relationship.

The movies illustrate the 80/20 Principle. A recent study shows that 1.3 percent of movies earn 80 percent of box office revenues, producing virtually an 80/1 rule (see [this page](#)).

The 80/20 Principle is not a magic formula. Sometimes the relationship between results and causes is closer to 70/30 than to 80/20 or 80/1. But it is very rarely true that 50 percent of causes lead to 50 percent of results. The universe is predictably unbalanced. Few things really matter.

Truly effective people and organizations batten on to the few powerful forces at work in their worlds and turn them to their advantage.

Read on to find out how you can do the same...

1

WELCOME TO THE 80/20 PRINCIPLE

For a very long time, the Pareto law [the 80/20 Principle] has lumbered the economic scene like an erratic block on the landscape; an empirical law which nobody can explain.

JOSEF STEINDL¹

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 much 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. This book, the first ever on the 80/20 Principle,² is written from a burning conviction, validated in personal and business experience, that this principle is one of the best ways of dealing with and transcending the pressures of modern life.

WHAT IS THE 80/20 PRINCIPLE?

The 80/20 Principle asserts that a minority of cases, 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. This for all practical purposes, for five-fifths of the effort—a dominant part of it—is largely irrelevant. This is contrary to what people normally expect.

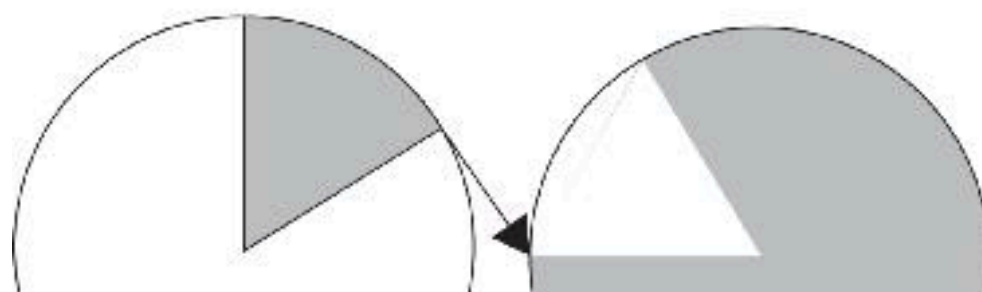
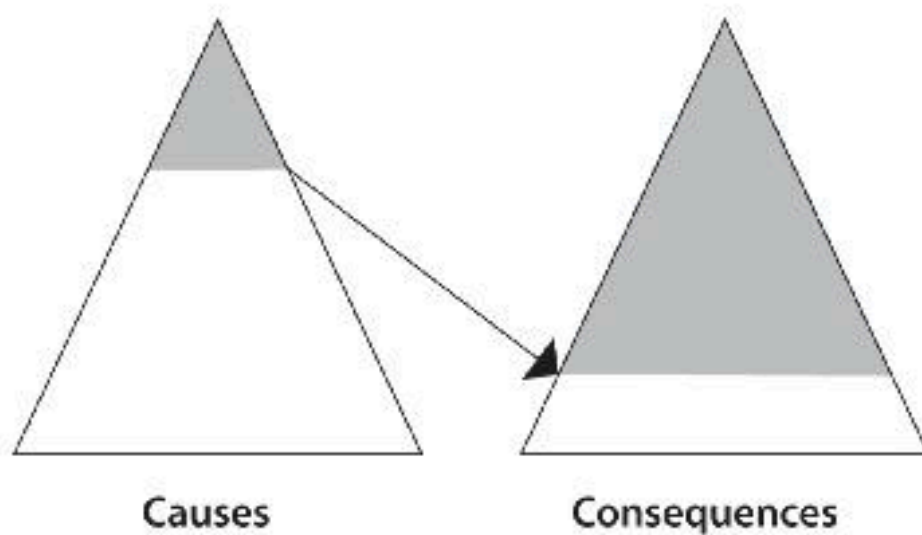
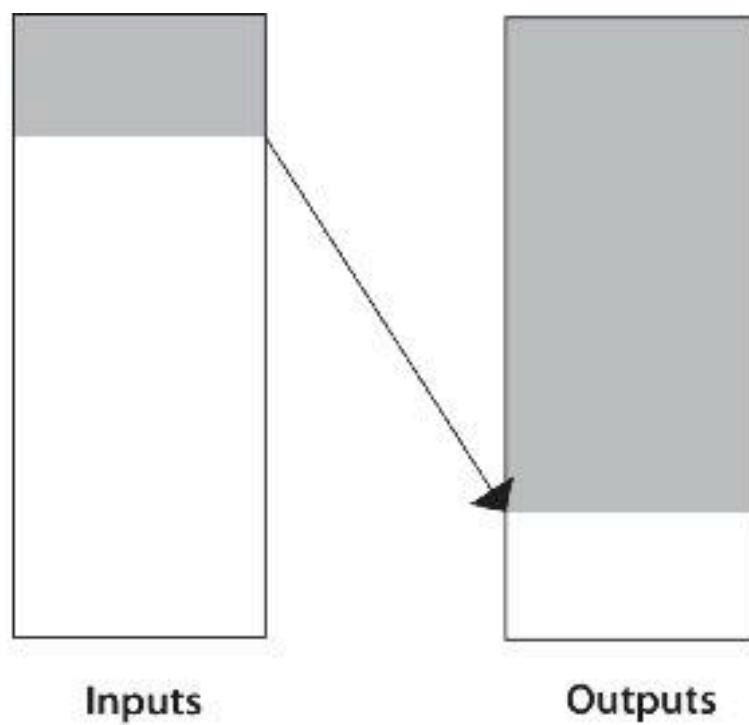
So the 80/20 Principle states that there is an inherent imbalance between cases and results, inputs and outputs, and effort and reward. A good benchmark for this imbalance is provided by the 80/20 relationship: a typical pattern will show that 80 percent of outputs result from 20 percent of inputs; that 80 percent of consequences flow from 20 percent of cases; or that 80 percent of results come from 20 percent of effort. Figure 1 shows these typical patterns.

In business, many examples of the 80/20 Principle have been validated. Twenty percent of products usually account for about 80 percent of dollar sales and so do 20 percent of customers. Twenty 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 volume of all crime. Twenty percent of motorists cause 80 percent of accidents. Twenty percent of those who marry comprise 80 percent of the divorce statistics (those who consistently remarry and redi-
vorce distort the statistics and give a lopsidedly pessimistic impression of the extent of marital fidelity). Twenty 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. Twenty percent of your clothes will be worn 80 percent of the time. And if you have an intruder alarm, 80 percent of the false alarms will be set off by 20 percent of the possible cases.

The internal combustion engine is a great tribute to the 80/20 Principle. Eighty percent of the energy is wasted in combustion and only 20 percent gets to the wheels; this 20 percent of the input generates 100 percent of the output.



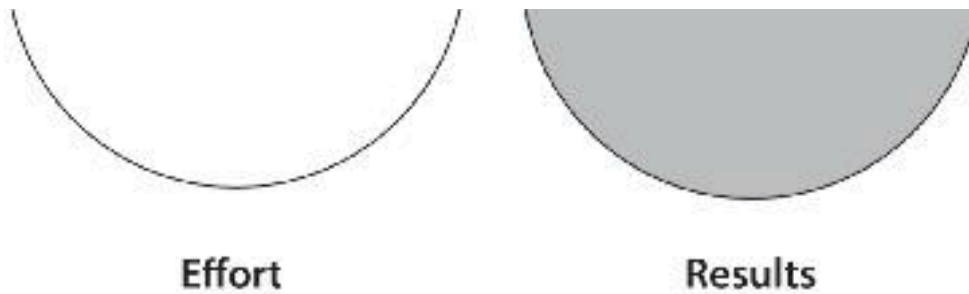


Figure 1 The 80/20 Principle

Pareto's discovery: systematic and predictable lack of balance

The pattern underlying the 80/20 Principle was discovered in 1897, about 100 years ago, by Italian economist Vilfredo Pareto (1848–1923). His discovery has since been called many names, including the Pareto Principle, the Pareto Law, the 80/20 Rule, the Principle of Least Effort, and the Principle of Imbalance; throughout this book we will call it the 80/20 Principle. By a subterranean process of influence on many important achievers, especially business people, computer enthusiasts and quality engineers, the 80/20 Principle has helped to shape the modern world. Yet it has remained one of the great secrets of our time—and even the select band of cognoscenti who know and use the 80/20 Principle only exploit a tiny proportion of its power.

So what did Vilfredo Pareto discover? He happened to be looking at patterns of wealth and income in nineteenth-century England. He found that most income and wealth went to a minority of the people in his samples. Perhaps there was nothing very surprising in this. But he also discovered two other facts that he thought highly significant. One was that there was a consistent mathematical relationship between the proportion of people (as a percentage of the total relevant population) and the amount of income or wealth that this group enjoyed.⁴ To simplify, if 20 percent of the population enjoyed 80 percent of the wealth,⁵ then you could reliably predict that 10 percent would have, say, 65 percent of the wealth, and 5 percent would have 50 percent. The key point is not the percentages, but the fact that the distribution of wealth across the population was *predictably unbalanced*.

Pareto's other finding, one that really excited him, was that this pattern of imbalance was repeated consistently whenever he looked at data referring to different time periods or different countries. Whether he looked at England in earlier times, or whatever data were available from other countries in his own time or earlier, he found the same pattern repeating itself, over and over again, with mathematical precision.

Was this a freak coincidence, or something that had great importance for economics and society? Would it work if applied to sets of data relating to things other than wealth or income? Pareto was a terrific innovator, because before him no one had looked at two related sets of data—in this case, the distribution of incomes or wealth, compared to the number of income earners or property owners—and compared percentages between the two sets of data. (Nowadays this method is commonplace and has led to major breakthroughs in business and economics.)

Sadly, although Pareto realized the importance and wide range of his discovery, he was very bad at explaining it. He moved on to a series of fascinating but rambling sociological theories, centering on the role of élites, which were hijacked at the end of his life by Mussolini's fascists. The significance of the 80/20 Principle lay dormant for a generation. While a few economists, especially in the U.S.,⁶ realized its importance, it was not until after the Second World War that two parallel yet completely different pioneers began to make waves with the 80/20 Principle.

1949: Zipf's Principle of Least Effort

One of these pioneers was the Harvard professor of philology, George K Zipf. In 1949 Zipf discovered the "Principle of Least Effort," which was actually a rediscovery and elaboration of Pareto's principle. Zipf's principle said that resources (people, goods, time, skills, or anything else that is productive) tended to arrange themselves so as to minimize work, so that approximately 20–30 percent of any resource accounted for 70–80 percent of the activity related to that resource.⁷

Professor Zipf used population statistics, books, philology, and industrial behavior to show the consistent recurrence of this unbalanced pattern. For