



## Pareto Principle

**Pareto Principle** is named after the Italian economist and sociologist Vilfredo Pareto who in the late 19th century found out that in Italy 80 % of the wealth is in the hands of 20 % of the people. Over time it became clear that the principle also applies in the life of the organizations and in the management practice. Pareto Principle is a simple analytical technique, a tool that helps to simplify and focus the **management** and **decision making**, for example as follows:

- › 80 % of business revenue comes from 20 % of customers
- › 20 % of products generate 80 % profit
- › 20 % of possible causes generate 80 % of problem situations, such as in the production

Generally, the **Pareto Principle** can be expressed as follows: *20 % of causes generate 80 % of results.*

Practically, this means that while managing, planning and decision making **is necessary to focus primarily on those critical 20 %, which can reach 80 % of potential effect.** Thus the management is done with the greatest effect. Pareto Principle can be used in practice in all fields and areas.

In the field of Quality Management the Pareto Principle was applied by Joseph M. Juran.

Related terms and methods:

- › [Decision making](#)
- › [Planning](#)

Related management field:

- › [Management](#)

Related personalities:

- › Joseph M. Muran
- › Vilfredo Pareto