

EPISODE 60: HOW TO INCREASE SALES AND MARKETING RESULTS BY USING 80/20 PRINCIPLE

with Perry Marshall

Marketing for Creatives Show
at IntNetworkPlus.com

Announcer:

Turn your hobby and freelance work into a profitable business! Make your marketing easier by applying the strategies of experienced entrepreneurs and have more time to do the work you love. You are listening to the Marketing for Creatives show with your host Marina Barayeva.

Marina Barayeva:

Hi everyone. This is Marina Barayeva. Welcome to another episode of Marketing for Creatives show. In this episode, we gonna talk about how to increase sales and marketing results by using 80/20 principle.

Think about those people who you try to sell something. There are two groups of them. First, are those few clients that you love to work with. The second group, people who you try to sell, follow up for a long time and many still buy nothing.

Our special guest today, Perry Marshal, will explain to you how the 80/20 Principle works in business and how to be with that 20% of the best.

Perry is one of the world's most expensive and sought-after business consultants.

More recently, he's turned "80/20" into a verb. 80/20 is not just a fact about your business, it's action you take on your business. 80/20 is the central lever for every great strategy. His book 80/20 Sales & Marketing is mandatory in many growing companies. His books are course material in several business schools.

Hi Perry! Welcome to the show. How are you doing today?

Perry Marshall:

Good, thank you, Marina! I'm doing great and we're going to talk about some really important, useful things that will immediately put money in people's pockets, and waste less time, so I'm looking forward to that.

Marina Barayeva:

Let's do it! Please, let's start with your entrepreneurial story. How did you become an entrepreneur and ended up with so amazing book?

Perry Marshall:

When I was 20 years old, I was already married, and I was working at a job. My wife and I were living in Lincoln, Nebraska and I was going to school. One day, at work, my friend and I decided to play a practical joke.

We worked at this very large company that had about 300 branches all across the United States. It was a wholesale warehouse company. We were in Lincoln, Nebraska. Down the road in Omaha, Nebraska, there was another branch and we would always talk to the people that worked there.

We decided to play a little trick on them. We wrote up a fax, and it looked like it was from the CEO of the company, and it said:

“Dear Branch Managers,

W. W. Grainger stock has suddenly and inexplicably plummeted from \$63 a share to \$17 dollars a share, and we will be closing all branches, effective Friday.

We want to thank you for your many years of hard work and dedication, and we will make every effort to complete payroll for the current week.”

We put it in the fax machine, and we pressed the button. Then we waited for them to call us up and say, “Hahaha, very funny...”

But they didn’t call! Fifteen minutes goes by, a half an hour goes by, forty-five minutes goes by...

You don’t want to spoil your joke by asking if they got it, but after a while, Tony started getting nervous so he called them up. The guy says, “Oh! That was you?! Brenda pulled that off the fax machine and she immediately went into hysterics. She is calling all of her friends saying, ‘I lost my job; I’ve worked here for 12 years and I don’t know what I’m going to do!’

We didn’t really know what to think! We faxed it to Des Moines, Iowa, and Des Moines faxed it to Sioux City, Iowa, and Sioux City faxed it to Fort Smith, Arkansas. Would you like to guess what happened to me when the boss came to work the next day?

Marina Barayeva:

So what happened?

Perry Marshall:

YOU’RE FIRED!

Marina Barayeva:

Oh no!

Perry Marshall:

Oh, yea! This was a two-billion-dollar company. I found out two-billion-dollar companies do not take practical jokes about stock price – they don't have any sense of humor about such things.

In fact, this fax made its way up, up, up the chain of command until it got to the CEO. Every level that it went up, they thought it was less, and less, and less funny.

So, I got fired from my job. I think I was 21 years old. This really shook me up. I felt like I had been disconnected from the world; I felt ashamed of myself, that I didn't have a job. I started scrambling around looking for jobs.

I was also in summer school taking an engineering class, and because of the huge distraction of losing my job, I started getting behind in my engineering class in summer school. If you've ever taken summer school, it usually goes very fast, and if you start falling behind, you're in big trouble.

I had to drop the class because I was failing. Up until that point, I had always defined success as – never fail a class, and never get fired from a job. As long as I don't do any of those things, then I've never failed and I'm OK. Now, I've done both and this really messed me up.

Then, I got a couple more jobs, and I got fired from two more jobs. Mostly because I clashed with my bosses in various ways. So, literally in the space of 3 months, I got fired from 3 jobs. I suddenly had a very different view of the world than I had ever before - at age 21.

A few months later, my friend Bill approaches me about a business, and he recruits me into being an Amway distributor. I don't think I would have ever done that if I hadn't had that experience in getting fired from those jobs.

You'd go to a multilevel marketing meeting, and they'd talk about how if you don't own your own business, then somebody else can fire you and somebody else controls your future. So, I was all of a sudden really seriously paying attention to that. The idea of starting my own business was suddenly a lot more appealing.

That's how I became an entrepreneur.

But there's another part of how I became an entrepreneur – when I was 13 years old, I started building stereo equipment, and I didn't have very much money. The only way I could build the designs that I wanted to build was if I sold them.

When I was 14 years old, I made my first sale to my first customer – I sold a pair of speakers to a guy for \$60. I ran a classified ad in the newspaper, and the guy came, bought my speakers, and I was in business! I had a stereo equipment business from that point forward. But that was not really, truly entrepreneurship; that was a technical guy figuring out how to do his hobby and get paid for it, which isn't really the same thing.

The Amway thing got me taking entrepreneurship really seriously. Amway ended up being a total waste of time.

Marina Barayeva:

Ups and downs everywhere.

Perry Marshall:

Yes, right! I was not very successful at it. But I did learn some very important skills, and I definitely wanted very badly to successfully run my own business.

Marina Barayeva:

How did you come up with this 80/20 principle which you apply to business? Because it's usually a general principle.

Perry Marshall:

Well, I read Richard Koch's book *The 80/20 Principle* in 2003. By this point, I had successfully been a sales and marketing manager at a company. Then I had started a marketing consulting firm, which, at this point, I had been in it for a year and a half – a year and a half I'd been in my own business.

I was a marketing consultant, and I read Richard's book. Richard made this little remark on page 14, and he mentioned that 80/20 has a great deal to do with Chaos Theory.

I knew all about Chaos Theory, and I said, "Oh my goodness – if that's true, then this applies to everything."

I said, "Let's see if that's true," and I ran home and I got a calculator and a bunch of pieces of paper, and a bunch of sales reports, and web tracking stuff. I put it all together and said, "Oh my word – 80/20 is everywhere! Not only that, but there is an 80/20 inside of every 80/20, and another one, and another one, and another one. This is EVERYWHERE! Oh, my word. This is the most universal, simplifying principle for what actually works in marketing that I've ever found."

I started using it: I started using it with my clients, I started teaching it to my customers, and people found it extremely helpful.

I was on this new journey; this amazing discovery. Ten years later, I published *80/20 Sales and Marketing* which is now a very popular, best-selling book. Lots of people in the marketing space have read that book. I think it is one of the most important books that you could ever read as a marketer.

Today, I hope that we can take some truths from that book and tell you about them.

Marina Barayeva:

Sure! Can you please tell us – how can we apply the 80/20 principle to sales and marketing? You said that you started to apply it for your clients.

Perry Marshall:

My friend **John Paul Mendocha** dropped out of high school at age 17 in Denver, Colorado, and he hitchhiked to Las Vegas to become a professional gambler. He had this fantasy of gambling for a living in Vegas. He thought that would be kind of romantic.

After a few weeks of this, he discovered, “Hey, this is a lot harder than I thought it was going to be.”

He meets this guy in the bookstore who’s also a gambler. He finds out that the guy runs a professional gambling ring, and he says, “Hey – can you teach me how to do what you do?” And the guy says, “For a percentage of your winnings I can teach you how to do what I do.” They shake on it.

As soon as they get done shaking hands, he says, “Jump in the jeep, John, we’re going for a ride.” So, John jumps in the jeep, and they’re going down the highway, and John says, “Alright – how do I win more poker games?” Rob says to him, “The way you win more poker games is you need to find marks.

Marks are people that are going to lose at poker. You don’t want to play people who are good at poker – you want to play people who are going to lose; you have to find the marks.”

“Where do I find the marks?”

“Here, I’ll show you.”

Rob pulls into the parking lot of the strip club. They go into the strip club and there’s women, music pounding, people drinking, bikers, etc., and Rob sits John down at a table, and Rob always carried a sawed-off shotgun with him everywhere he went.

He pulls out the sawed-off shotgun out of his jacket. He holds it under the table, he opens the chamber and slams it shut so it goes “ch-ch”.

He racks the shotgun and it makes this noise. It’s really loud in the strip club – there are music and distractions obviously, but there are a few people who turn around when they hear that noise.

The club owner comes over and says, “Hey – what’s going on here?”

Rob says, “Don’t worry about us. We’re not going to cause any trouble. Just teaching the lad a lesson.”

Then, he says to John, “John, did you see those biker dudes that turned around when they heard that noise?”

John goes, “Yeah...”

Rob says, “Don’t play poker with them, ‘cause they’re not marks. Play poker with everybody else.”

Now, what Rob did in that room was when he racked the shotgun, he immediately determined the 80/20 of who in that room is street smart and who is not. 20% of the people in the room would notice a sound like that. Don’t play poker with those guys. 80% of the room, they’re oblivious. Play poker with those guys.

It was a way of determining and disqualifying who to do business with and who not to do business with.

Everything that you do in marketing is racking the shotgun. Everything that you do in advertising is racking the shotgun. Who turns their head when they hear that sound, and who doesn’t.

Marina Barayeva:

So, we should focus on those people who pay attention to us? 80% people who looked at that guy, or 20%? How can we define those people?

Perry Marshall:

Most of the time, most things you do – only 20% of the people are going to pay any attention. Most of the time, 80% are going to ignore you. What amateur marketers do is they focus on the 80% that didn’t pay attention, and they don’t realize that there’s a 20% that did pay attention, and furthermore, there is a 20% of the 20% who pay a super amount of attention.

Yesterday, I did a seminar in Chicago. I had customers come from all over the country, and even Europe, to be in my seminar. We had a one-day seminar, and there were 75 people there.

There were about 12 of them, give or take a few, who came to dinner and had drinks after the seminar. It was all voluntary – most of them just went home. But you know what? 20% stayed for the meeting after the meeting (or the meeting after the meeting after the meeting).

We were in a meeting room, they kicked us out of the meeting room at 6:00 pm. We went down the street to a food court. They kicked us out at 7:30 pm because the food court was closing. Then, we went to a bar, they kicked us out at 10:00 pm when the bar closed. Some other people went to the next bar, but I went home.

Right there, in that exact example, you see the 80/20 rule playing out. I’m going to guess that 3 or 4 of them went to a bar, so they were the 20% of the 20%.

Marina Barayeva:

How can we find those people? How can we find those gold clients – the 20% of our best clients?

Perry Marshall:

The first thing you have to realize is that this is always true: there is a 20% who is 4x as interested, and another 20% that's 4x more interested than that! So, I call this the Principle of the \$2,700 Espresso Machine.

In the book *80/20 Sales and Marketing*, I have an online tool that comes with the book. It gives you the ability to punch in some numbers and make predictions. It will use 80/20 to take a little bit of information about a group of people and tell you a whole lot of things about them.

If you punch into the tool that you had a 1,000 people come to your Starbucks store and buy a \$5.00 latte (so that's \$5,000). For every \$5,000 you get selling \$5.00 lattes, you will sell one \$2,700 gleaming, stainless steel espresso machine, and you will sell it to one of those people who also bought a latte.

It's just about guaranteed. It's the law of physics that for every 1,000 people who spend \$5.00, there's one who wants to spend \$2,700. There's probably 5 or 6 that want to spend \$500. That's why they have a \$500 espresso machine.

This is true anytime, anywhere, of any business – that a small number of the customers want to spend a whole lot more money, and they will! The money is burning a hole in their pockets, and they're going to spend it somewhere.

And if you have an espresso machine, they'll buy it from you. Most businesses, unless there are very special reasons not to, need to have an espresso machine. And if you don't, you're leaving money on the table.

If you do the math, if you go from having just lattes to having a \$500 espresso machine and a \$2,700 espresso machine, your sales will double without getting any more new customers - the same number of people.

Most businesses already have customers. Build an espresso machine, invent an espresso machine, do some high-end thing where they get a much more deluxe version of the product – and they will buy.

Marina Barayeva:

What will we do with the rest of the services or products?

Perry Marshall:

Well, you use them as a way of bringing people in to buy the espresso machines. It turns out that maybe the purpose of the latte is just to attract the occasional person who buys an espresso machine. The lattes pay the electricity bill. The espresso machines are the profit.

The best businesses often are not in the business you think they're in. You think they're in the latte business – they're really in the espresso machine business, and the latte is just the front door.

Marina Barayeva:

What should people do? For many people, they usually sell lattes, but they want to sell espresso machines. How can they switch their marketing?

Perry Marshall:

I imagine a lot of your listeners are service providers, they're professionals, they're designers, people like that. Here's a phrase that will always send you in the right direction. Sell results, not procedures. For example, if you're normally in the business of teaching somebody how to do something for \$100, do it for them for \$10,000, or \$1,000.

Marina Barayeva:

What if nobody will buy it? It's a too big difference.

Perry Marshall:

The Espresso Machine Principle tells you that they *will* buy if you get the offer correct. If you have 100 people who gave you \$100 (so \$10,000), one of those people will give you \$5,000 *if* they want to give you \$5,000. They want to buy the same sort of thing from you, but a much better version. If you get it right, and it what they actually want, they'll buy it. That's what 80/20 says. It's almost like a law of gravity.

If you put that offer together and you don't sell any, it's because the offer didn't really scratch their itch. It wasn't really what they wanted.

But like with Starbucks, if somebody buys lattes, it means they like coffee. And they want to be involved in coffee in other ways. I haven't even looked, but I bet you there are coffee tasting luxury cruises you can take.

Marina Barayeva:

Probably. [Laughter]

Perry Marshall:

Right! Where you pay \$5,000 and you go on a cruise in the Mediterranean and you go to Italy, go to France, and you try all these different kinds of coffee and everybody on the whole entire ship just talks about coffee all the time.

Next year, they go again. What 80/20 tells you is that 1% of the people will spend 50% of the money. 1% of the people will spend 50% of the money on coffee, or coaching, or web design, or domain names, or on music writing, or on filmmaking, or on video. There are large amounts of money concentrated in very small areas.

Marina Barayeva:

OK, Perry. So you give us a perfect dream client who we want to work with, who will give us a lot of money. The question is, how can we find and define this client?

Also, in the beginning, you said that we somehow should avoid the 80% of people who are not really our customers. How can we find the 20% and work with them and focus all energy on them?

Perry Marshall:

There are two steps: First, you need to sell them a latte or get them on your webinar, or email list or get them in your social media circle – where they can actually hear you. That's the first step; you have to engage with them somehow.

The second step is to survey them. Chapter 21 of my book *80/20 Sales and Marketing* explains how you can use survey methods to find out what your customers really want and crave.

It will tell you exactly how to do it, and they will tell you using their language, saying things the way they say them. They will give you the copy, they will give you the words to say. Then, you just need to build it.

Most of us know what our clients really, really, really want. It's just that it's kind of hard to put it all together and figure out how to deliver it to them on a silver platter. But if you can do that, there is a lot of money to be made. What you should be doing is spending 80% of your time with 20% of your clients. You should be spending 50% of your time with 1% or 2% or 3% of your clients.

You should never be treating your clients equally. You'll kill yourself if you do.

Marina Barayeva:

What about those people who still reach out asking about services and, as you said, many of them probably not even buy your service, and just buy a latte?

Perry Marshall:

You are not obligated to spend your valuable time serving people that won't pay you money.

Marina Barayeva:

But come on! It's kind of work. I'm sure a lot of people will just see the gig and will take it. This is what happens with a lot of creative people. What can they do with them?

Perry Marshall:

You know, I've had lots of people who thought that if they would answer a whole lot of emails, and get in all these long conversations, and do all these free consultations, that people would go, "Oh, this person is really good. I'm going to pay them money now."

That is not how it works. The way it works is you make a really big promise, and you say, "If you write me a big check, I will give you this and this and this and this, and this!"

If people write in and they want all this free help, and free advice, you say, "I'm sorry, but in order to continue this conversation, we'll need to engage in a client relationship. I've attached a form that you can fill out with your credit card information, and we can get started."

You don't do free work for people to prove you're OK. That doesn't get you anywhere. It just keeps you broke.

Marina Barayeva:

Yes, it's tough to work with everyone.

Perry Marshall:

No, you can't! *80/20* says don't work with everyone! Eliminate, eliminate, eliminate. *80/20* says sales is not a 'convincing people' process. Sales is an elimination process. It is a disqualification process. You have to disqualify, disqualify, disqualify, and then you get to the people that are willing to write you a check – and then you sell to them.

Marina Barayeva:

How can we disqualify them?

Perry Marshall:

In *80/20 Sales and Marketing*, I talk about the five power disqualifiers. They are the five things that are always true every time anybody sells anything.

1. They have the money.

You ask them, "Can you afford a \$10,000 web design project?". If they say no, the conversation is over.

Marina Barayeva:

What about those people who... I've heard the saying that people have money, but sometimes when you offer them a price, they may not be able to afford it right now or may not think about his price. But then, they will think and will get back to you. What about this situation?

Perry Marshall:

That gets us to the second part:

2. Do they have a bleeding neck?

In other words, do they have an urgent problem that needs to be solved right now? If they don't, they're not going to spend the money. If they're going to have a problem later, but they don't have a problem now, don't spend your time selling to them now – sell them later. They have to have a bleeding neck or they're not going to buy.

3. Do they buy into your unique selling proposition?

Or, do they buy into some competitor's unique selling proposition, which is different? You have to find out if that's true.

4. Do they have the ability to say yes?

Most people we try to sell stuff to have the ability to say no, but they don't have the ability to say yes. If you're going to sell a kitchen remodel, and the wife is there but the husband is not there, then you're probably not going to make the sale. And if the husband is there but the wife isn't there, you're probably not going to make the sale, because both of them can say no, each of them can say no – but they both have to say yes. So, you have to sell to both of them.

5. Does it fit with their overall plans?

Those are the five power disqualifiers. You should only try to sell to people that fit all five. Then you tell them how awesome your thing is. But when you start by disqualifying, you take the pressure off the prospect, because they don't feel like you're trying to ram something down their throat.

Marina Barayeva:

Hm, that's interesting!

Perry Marshall:

It takes the whole situation in reverse. I'll give you a quick example before we wrap up.

I have a quiz on my website, isfbforme.com, you'll find a quiz called, "Is Facebook for Me?". It takes 60 seconds to answer. It's got maybe 12 questions, you check the radio buttons, and press submit. It will give you a score between 1 and 10 of "Should You Be Advertising on Facebook?"

Basically, it says if you got less than a 6, don't bother. If you got a 7, 8, or 9, Facebook's going to be really important and you should advertise on Facebook. I tell people to take that quiz before they even read my book, or listen to my webinars, etc. Because if the kind of business they're in is really not that Facebook compatible, they shouldn't waste their time.

When Perry Marshall says, “Hey, I wrote the world’s most popular book on Facebook advertising, but I don’t think you should use Facebook,” they’re going to believe that.

And, when other people look at me and they go, “I can see he’s turning these other people away, but he’s saying, ‘You got an 8.5 – you absolutely should advertise on Facebook,’ then I guess I better listen to him.” Because they can see that I’m assessing the market honestly, and I’m not trying to sell them a used car.

This is a disqualification. We made that quiz originally so that people wouldn’t buy our book and give it 2 stars because we overhyped what Facebook could really do.

Everybody should do this to some degree. Disqualify, disqualify, disqualify. And you do it to a large degree in the very beginning.

Now, the more people warm up to you, and the more they like you, and the more they understand what you’re talking about, you don’t have to disqualify as much. But at the very beginning, you want to make sure you are talking to the right people.

Marina Barayeva:

Let’s give our listeners one big action step. What do you think would be the most important part in a business where they have to apply this 80/20 Principle, right after listening to this episode?

Perry Marshall:

Fire your worst customer.

Marina Barayeva:

[Laughter] OK. That’s great advice.

Perry Marshall:

I mean that. Most people are losing money on 5% or 10% of their customers. They would make more money if they got rid of those customers entirely than if they sold them something.

If you really think about it, you know that it’s true: “I really shouldn’t be doing business with this person, but I feel guilty and I don’t know how to get rid of them.”

Get rid of them. You can be nice about it, you can write them a letter and you can say, “We have been reviewing all of our accounts and making significant changes in our business. We’re ending some of our long-time client relationships because we’re moving in a different direction, and I’m going to help you find a different vendor who can help you instead.”

Then you get rid of them. And you immediately make more money, and you immediately get back 5 hours a week that you were wasting.

Marina Barayeva:

Fantastic. Thank you so much, Perry! There were a lot of great tips. Please share with us how we can find out more about you, your book, and everything that's going on.

Perry Marshall:

Go to PerryMarshall.com/8020. You can get *80/20 Sales and Marketing* for \$7.00 in the United States – including shipping – or \$14.00 internationally, and you can get several bonuses that you don't get when you buy it on Amazon.

The book's got almost 400 reviews on Amazon, and 4.7 Stars. We'll give you some extra stuff if you buy it from our website, PerryMarshall.com.

Marina Barayeva:

Fantastic! Guys, go check it out, and check out the blog post, I'll put all the links over there. Thank you, Perry, so much for a great interview.

Perry Marshall:

Thank you, Marina – take care!

Marina Barayeva:

That's all for today. Thank you for listening. For the show notes and the full transcript of the episode please go to intnetworkplus.com.

And when you have a minute, please go to iTunes and rate and review so we can bring you more amazing guest to talk about how you can market your business.

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Resources from this interview:

- Learn more about Perry Marshall on PerryMarshall.com
- Get *80/20 Sales and Marketing* book at PerryMarshall.com/8020
- Read Richard Koch's book *The 80/20 Principle*
- Learn more about [John Paul Mendocha](#)
- Take Perry's quiz "Is Facebook for Me?" on isfbforme.com
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