

Applying the 80/20 Rule to Purchasing

The 80/20 rule, also known as the Pareto principle, simply means that roughly 80 percent of the effects of anything you might be doing come from 20 percent of the causes. For example, 80 percent of your food, medical, office or janitorial spending is likely generated by about 20 percent of the most frequently needed supplies or services. Unsurprisingly, this simple little principle gives great insight into how your community works and also offers some pointers on how to manage your spending better.

The following is a recent article published in [Becker's Hospital Review](#):

Supply chain tip of the week: Use the 80/20 rule

Written by Mackenzie Bean | October 18, 2016

When searching for savings opportunities, it is wise to sort your item master file using the Pareto principle, also known as the 80/20 rule, says John Mateka, MBA, MHA, interim director of materials management for Florence, S.C.-based McLeod Health.

The Pareto principle, named after economist Vilfredo Pareto, describes an unequal relationship between inputs and outputs. The rule states that 20 percent of the invested input is responsible for 80 percent of the achieved results, according to Investopedia.

Mr. Mateka shared the following tip with Becker's Hospital Review:

"[This principle] is very applicable to the supply chain — roughly 20 percent of your items comprise 80 percent of your spend. When sorting products in descending total dollar value, your top spend items will reveal themselves. Supply chain leaders should spend time ensuring competitive pricing and utilization per volume of service for the top 20 items. This will save time and deliver the most benefit."

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