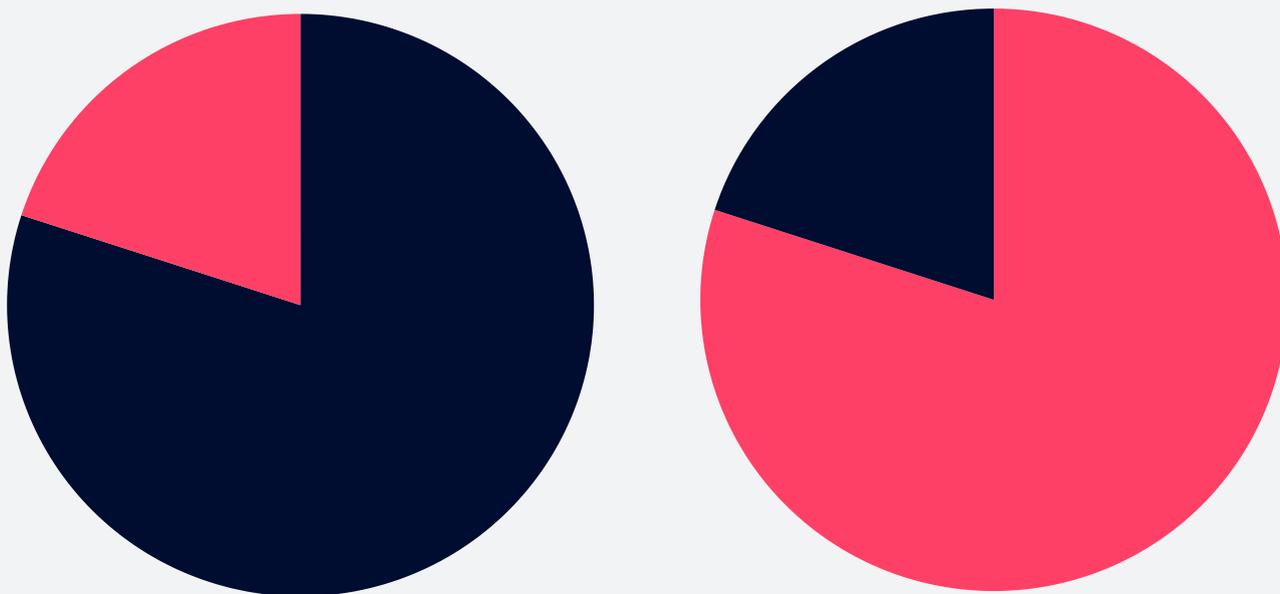


# Pareto Analysis

## WHAT IS THE PARETO ANALYSIS?

Pareto Analysis, often referred to as the "80/20 rule," is a decision-making tool used to identify and prioritize the most significant factors contributing to a given outcome. It is based on the principle that 80% of effects (e.g., profits, problems, or outcomes) stem from 20% of causes (e.g., key clients, issues, or efforts).

Originating from Vilfredo Pareto's observation that 80% of Italy's wealth was owned by 20% of the population, this principle has been widely adapted to business scenarios. Business mentors use the tool to help clients focus on the critical few activities or problems that yield the greatest impact, rather than spreading resources thinly across many less impactful areas.



## WHEN SHOULD I USE IT WITH A CLIENT?

A Pareto Analysis is most commonly used in situations where resources—such as time, money, or effort—are limited, and prioritisation is essential. Business mentors often turn to this tool in the following scenarios:

- Problem-solving to identify the most frequent causes of recurring issues (e.g., customer complaints or process inefficiencies).
- Strategic planning to determine which clients, products, or services contribute most to revenue or profitability.
- Time management to guide entrepreneurs in focusing their energy on tasks that drive the most value.
- Improvement projects to uncover the critical areas that require intervention to maximize efficiency or quality.
- Decision-making to evaluate where to allocate resources for the highest return on investment.

## HOW IS IT USED?

Using Pareto Analysis involves the following steps:

1. **Define the problem or objective:** Start by clearly identifying the issue or goal. For instance, a mentor may aim to increase customer satisfaction or reduce expenses.
2. **Collect data:** Gather data related to the issue, such as sources of customer complaints, sales by client, or causes of delays in delivery.
3. **Categorise and measure:** Group the data into categories (e.g., complaint types, revenue streams) and quantify each category by frequency, cost, or other relevant metrics.
4. **Rank the categories:** Organise the categories in descending order of impact, focusing on the largest contributors.
5. **Create a Pareto chart:** Visualise the data using a bar chart that displays the relative contributions of each category, with a cumulative percentage line to highlight the 80/20 relationship.
6. **Analyse and prioritise:** Identify the top categories (the “vital few”) that account for the majority of the impact and prioritise addressing them over the less significant categories (the “trivial many”).

For example, if 80% of late deliveries stem from 20% of suppliers, the business owner should work with those suppliers first. To apply Porter’s Five Forces, a business mentor guides the mentee through a structured analysis of each force.

## WHAT ARE THE BENEFITS?

- **Focus on priorities:** Pareto Analysis helps mentors and their clients identify the most impactful areas to work on, enabling them to allocate time and resources effectively.
- **Clarity and simplicity:** The visual nature of the Pareto chart makes it easier to communicate and understand the key drivers of a problem or success.
- **Improved decision-making:** By targeting the root causes of major effects, businesses can implement changes that yield maximum results with minimal effort.
- **Increased efficiency:** Mentors can guide their clients to avoid wasting resources on low-impact activities, improving overall productivity.
- **Scalability:** The tool works well for problems of any scale, from small team inefficiencies to company-wide revenue optimization.
- **Motivational impact:** Seeing quick wins by addressing the biggest contributors encourages businesses to take action and sustain momentum.

In summary, Pareto Analysis is a powerful tool for business mentors to guide their clients toward impactful decision-making, ensuring resources are focused where they matter most. By applying this method, businesses can systematically address challenges, optimise processes, and achieve more significant results with less effort.