

Pareto Analysis



KEY LEARNINGS: PARETO ANALYSIS

What is Pareto Analysis?

- A problem-solving technique based on the 80/20 Rule (Pareto Principle).
- Named after Vilfredo Pareto, who observed that 80% of Italy's wealth was owned by 20% of the population.
- Applies broadly:
 - 80% of complaints come from 20% of problems.
 - 80% of sales come from 20% of products.
 - 80% of delays are caused by 20% of bottlenecks.
- Helps businesses prioritize efforts by identifying the smallest number of causes responsible for the biggest impact.

How Does Pareto Analysis Work?

1. List all problems or issues the business is facing.
2. Measure their frequency, cost, or impact to understand their severity.
3. Rank them from largest to smallest to see which issues occur the most.
4. Create a Pareto Chart (bar graph) to visually identify the most significant issues.
5. Focus on the "vital few"—the 20% of causes responsible for 80% of the impact.

Example: Restaurant Customer Complaints

A restaurant gathers data on customer complaints:

- 40% of complaints – Cold food.
- 30% of complaints – Late deliveries.
- 15% of complaints – Wrong orders.
- 10% of complaints – Rude staff.
- 5% of complaints – Miscellaneous issues.

Using a Pareto Chart, they see:

- Cold food and late deliveries make up 70% of the issues.
- Instead of fixing everything at once, they focus on these two major problems:
 - Fix the cold food issue – Improve kitchen workflow, train staff to move faster, recalibrate ovens.
 - Fix the late deliveries – Optimize plating process, improve delivery coordination.
- Result? Customer satisfaction skyrockets, and the business thrives.

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Why is Pareto Analysis Important?

- Eliminates distractions – Stops businesses from wasting time on minor issues.
- Maximizes efficiency – Focuses efforts on solving the biggest contributors to problems.
- Drives impactful solutions – Ensures small changes lead to big improvements.
- Applies everywhere – Can be used in manufacturing, healthcare, customer service, logistics, and more.

What's Next?

- Pareto Analysis pinpoints the biggest problems, but what if those issues are interconnected?
- What if hidden patterns reveal deeper inefficiencies no one has noticed?
- Up next: A framework that maps out processes and exposes hidden roadblocks before they cause chaos.