



Decision Making - But what is most important.....

Pareto Analysis

We all know the statement about the old 80:20 rule- that 20% of whatever produces 80% of the profit/sales but how often do you actually use the 80:20 rule to your benefit?

How often are you faced with a range of things that need attention but the one that often is tackled first is the one that is heard the loudest, but not necessarily the one that may produce the 80%. Or do you just guess that it may be the right thing to tackle first?

The 80:20 rule is in fact the Pareto principle

The principle was suggested by management thinker Joseph M Juran. It was named after the Italian economist Vilfredo Pareto, who observed that 80% of income in Italy was received by 20% of the Italian population. The assumption is that most of the results in any situation are determined by a small number of causes.

Pareto analysis is a formal statistical technique used where many possible courses of action are competing for your attention. Basically, it consists of estimating the benefit delivered by each action with subsequent selection of a number of the most effective actions that can deliver the maximum possible benefit.

Don't be turned off by a 'formal statistical technique' - it is a very simple technique that helps you to choose the most effective changes to make. Particularly where there are a number of possible courses of action competing for your attention.

How to use the Pareto principle as a tool

Write out a list of the changes you could make or the problems you have defined. If you have a long list, group them into related areas.

Then score the items or groups. The scoring method you use de-

pends on the sort of problem you are trying to solve.

For example, if you are trying to improve profitability, you would score options based on the profit each group might generate. If you are trying to improve customer satisfaction, you might score the item or group based on the number of complaints eliminated by each change.

The first change to tackle is the one that has the highest score. This one will give you the biggest benefit if you solve it.

The options with the low scores will probably not even be worth bothering with - solving these problems may cost you more than the solutions are worth.

Example:

A manager has taken over a failing service centre. He commissions research to find out why customers think that service is poor. He gets the following comments back from the customers:

1. Phones are only answered after many rings
2. Staff seem distracted and under pressure
3. Engineers do not appear to be well organized. They need second visits to bring extra parts. This means that customers have to take more time off from work to be there a second time
4. They do not know what time they will arrive. This means that customers may have to be at home all day for a service person to visit
5. Staff members do not always seem to know what they are doing
6. Sometimes when staff members arrive, the customer finds that the problem could have been solved over the phone.

The manager groups these problems together. He then scores each group by the number of complaints, and orders the list:

- *Lack of staff training*: items 5 and 6: 51 complaints
- *Too few staff*: items 1, 2 and 4: 21 complaints

- *Poor organisation and preparation*: item 3: 2 complaints

By doing the Pareto analysis above, the manager can better see that the vast majority of problems (69%) can be solved by improving staff skills.

Once this is done, it may be worth looking at increasing the number of staff members. Alternatively, as staff members become more able to solve problems over the phone, maybe the need for new staff members declines.

It looks as if comments on poor organisation and preparation may be rare, and could be caused by problems beyond the manager's control.

By carrying out a Pareto Analysis, the manager is able to focus on training as an issue, rather than spreading effort over training, taking on new staff members, and possibly installing a new computer system.

In Summary:

Pareto Analysis is a simple technique that helps you to identify the most important problem to solve. To use it:

- List the problems you face, or the options you have available
- Group options where they are facets of the same larger problem
- Apply an appropriate score to each group
- Work on the group with the highest score.

The Pareto analysis not only shows you the most important problem to solve, it also gives you a score showing how severe the problem is.

And to start you off, why not contact Marketingheads to assist you to make your strategies work even harder.....