

A Fool with a Tool is still a Fool

By Nidhi Chaudhry

Businesses for years have been making critical decisions based on intuition and experience. But today the forces of sustained competition, informed customers and new technology are converging to transform the way business is done. In such a changing landscape, the use of analytics can greatly improve your business performance through fact-based decision making. Here's how your company can use the power of analytics to impress and surprise your customers.

Imagine the world as a business game with two kinds of players: Companies and consumers. In the old days, companies established the rules. They made products and then found different ways to sell them. Companies assumed that they would keep their current customers so they spent most of their resources acquiring new ones.

However, the transition from traditional transaction marketing to relationship marketing has changed the game. There has been a significant shift in thinking of consumers as passive recipients towards thinking of them as the drivers of business itself. Now companies rely on their consumers for inputs at every step of the process. Successful companies are fully aware of the value of being closely linked to their consumers and the competitive advantage of not only understanding but even anticipating their every need.

But this is easier said than done. Consumers are an elusive and often puzzling bunch with an unwillingness to be wooed. Understanding or predicting their wants and needs seems impossible, when simply engaging them in direct conversation is a Herculean task. Moreover, increasing globalization and competition is quickly eroding traditional bases of competition. Innovation in services and products is becoming more challenging by the day and even companies which do develop something new find it quickly replicated. Product life cycles are shrinking while customer expectations are soaring. In this environment, deep customer understanding is essential. Thus, what most Consumer

“The traditional firm-centric view of value creation is being challenged by active, connected and informed consumers- coupled with the mingling of technologies and increased competition.”

C.K. Prahalad

Co-author ‘The Future of Competition’

“The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself.”

Peter Drucker

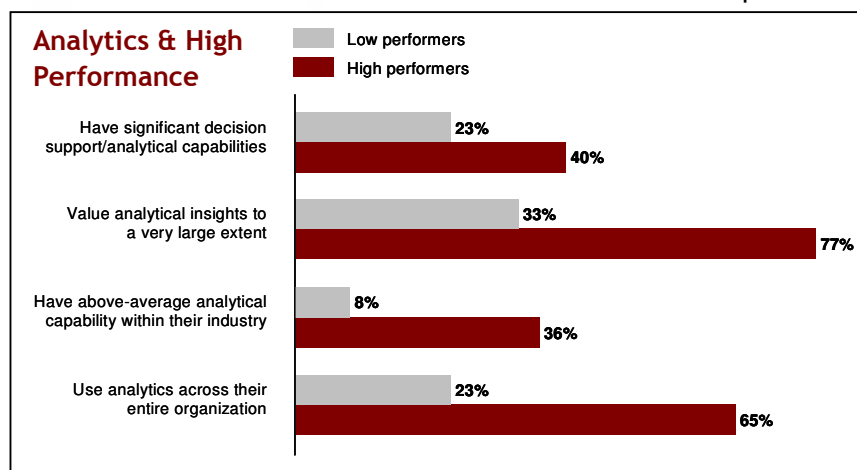
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facing companies are asking themselves today is- How can I better understand my customers to anticipate their every move?

What many companies fail to realize is that a big part of the answer lies dormant in the customer data they have been collecting. Every interaction the consumer has with the company leaves a trail of valuable data. It is no surprise then that many companies consider their customer data as their biggest asset and the single most important source of their strategic inspiration. In Peter Drucker's words, "Today data has power. It controls access to opportunity and advancement."

However, in and of itself data does not have any value; the value comes from how it is manipulated and interpreted. This realization has been fueling the wave of analytics adoption across industries and companies. Despite the buzz surrounding analytics, there is still confusion about how it can be implemented effectively.

According to the dictionary, analytics is the science of logical analysis. Companies like Capital One, Tesco, Bank of America and HSBC have all been using analytics successfully for many years not only to increase customer satisfaction but also to drive sales and profits. In fact, a recent research found that



high-performance businesses which substantially outperform competitors over the long term and across economic, industry and leadership cycles are twice as likely to use analytics compared with the overall sample, and five times more likely to do so than low performers.

Advanced Analytical techniques- A retail example

UK based Tesco is one of the world's largest retailers and a company that has used analytics to retain customers and boost profits. Tesco initiated its Clubcard program in 1995, collecting information on every item purchased by over 10 million Clubcard members. Using this information, Tesco has developed over 5,000 customer "needs" segments. Each quarter, Tesco sends out over 150,000 variations of a magazine with segment-specific content combined with six highly targeted coupons to each Clubcard member. Four of these coupons are for products the customer purchased in the past and two are for products that the customer is considered likely to purchase. As a result, Tesco is seeing coupon redemption rates of 90 percent.

Tesco has expanded its use of Clubcard data to draw additional insights. For instance, the retailer has analyzed the data of its price-sensitive customers to identify which products they purchase that are not purchased by other customers. Tesco then lowers prices on products purchased only by those shoppers, rather than trying to compete on price across all product categories. The targeted price cuts enable Tesco to attract customers away from competitors and capture additional volume to support the price reductions. Tesco has also used insights driven from its Clubcard data to influence its private label program, leading to the introduction of its Tesco Finest brand. More recently, Tesco has used its customer knowledge to build new businesses, including Tesco Personal Finance and its online travel service.

Financial Services insight development- An Example

HSBC Bank USA, which serves over 1.4 million retail banking customers has implemented and benefited from analytics. With over US\$35 billion in assets, HSBC is focused on maintaining high customer acquisition and retention rates while keeping operations profitable. The bank's goals include expanding relationships with current customers, keeping marketing costs low to maintain margins and moving to market quickly with new intelligence. In the past, HSBC often used lifestyle segmentation information purchased from outside market research companies as a basis for product promotions to new and existing customers. However, the bank finally realized that it already had much more valuable information at its disposal. According to Joe Somma, HSBC Bank USA's manager of customer acquisition and research, "We realized that we already had much more specific and potentially valuable information on the buying habits and needs of our 1.4 million customers already locked in our database. It was just a matter of mining the data and analyzing the patterns to learn more about who needs what and when." HSBC adopted strategic analytics to mine customer data and create predictive models to discover cross-selling and "rollover" opportunities. This enabled the bank to focus on the best prospects for each product, leading to a sales increase of 50 percent and marketing cost reduction of 30 percent.

Indeed, the stories above paint a rosy picture of the wonders of analytics and how it has helped companies overcome issues and become more profitable. But all of these need to be taken with a pinch of salt. Analytics provides a roadmap to use data to make smarter and better-informed decisions. What it does not provide is a guarantee for success. And there is most certainly no one-size-fits-all formula to making it work.

How then can you ensure that your business makes the most of analytics while avoiding the risk of failure?

Start Small, Go Big

Analytics is hard. Analytics takes resources. It takes effort for an organization to create and assimilate learning from analytics. Typically, companies recognize the need for more data-driven decision making and then embark on a crusade to make it happen. They bring in a technology-focused consulting company which promises to build them an enterprise wide business analytics system to end all systems. This approach is 1) too big; 2) too slow; 3) too expensive and 4) neglectful of the organizational mindsets that need to change. No matter how sexy it sounds, the 'big bang' approach simply does not work.

You need to concentrate your analytics on the few key leverage points of your business and start from there. Focus your data efforts on supporting your distinctive capability- a unique customer centric combination of business processes and resources that sets you apart from your competitor. For UPS this means focusing on knowing where packages are and for Marriot this means focusing on revenue management. You just need to figure out what it means for you.

It's about the Analysis, not the Analytics

In all the enthusiasm surrounding the usefulness of analytics, it is easy to confuse analytics with the tools that support analytics. Tools provide data, direction, and information. More important is the business expertise to interpret this data and formulate insights. Many of the top systems on the market, like Omniture and Unica are very powerful and can provide nearly any data point. But, while the tools are getting feature-rich, the majority of businesses are looking to simplify their analysis around specific, actionable objectives and key metrics.

This is heralding the way for a subtle but far reaching change in the approach to and the definition of analytics. What you need, to reap the true benefits of analytics is the presence of seasoned business analysts, whether in-house or outsourced. Simply put, it's not about the tools anymore. It's about how businesses use the tools to analyze, and ultimately optimize, the results that really matters.

Define Clear Key Metrics

Very rarely do companies have a problem of 'not enough data'. Data is everywhere and it is easy to get overwhelmed with it. The key is to not worry about the data but rather about the key metrics that will fuel your team to make their next smart decision. What you want to do is to develop a few metrics which are core to the success of your business. If you are in a well established industry, it is likely those metrics have been defined and are well understood.

Start by asking yourself these questions: What are your business' most important metrics? How often does senior management look at the key metrics that actually drive the P and L, and who is accountable for them? Who owns each of those metrics? What are the goals? Are there stretch goals? Ensure that there are clear linkages between metrics. There needs to be a well-understood hierarchy that has important financial measures at the top (i.e. revenue) and connects to the underlying drivers. After all, 'Success' is execution based on metrics followed by repeat improvements.

Become an Insight-driven organization

The true value of data and analytics is realized through the development of unique and differentiated insights. While analytics can provide a basic understanding of market dynamics, insights can translate that information into competitive advantage. However this is easier said than done since it requires people who are not only data-oriented but also have deep business and domain understanding. Also, adopting analytics successfully calls for big changes in culture, process, behavior and skills for many employees. Such changes need to be spearheaded by senior executives who are passionate about analytics and fact-based decision making. Thus to truly reap the benefits of analytics, you should make a concerted effort to develop an insight-driven culture that is adept at applying insights across business activities. A prudent balance of analytical muscle and creative mindset can help provide you with the competitive edge that is required in this increasingly complex world.

RedPill Analytics

RedPill's closed loop analytics approach is meant to help companies address current issues and still find a way to generate insights and enhance customer value. Through data mining we can identify insights into customer micro-segments. Using this information, we can develop one-to-one marketing with individually tailored offers to customers. RedPill transforms data into dollars today, while simultaneously creating long-term differentiation for the organization.

RedPill Analytics offers the following services:

- Customer Segmentation
- Customer Acquisition
- Portfolio Management
- Cross-Sell
- Collections Management
- Risk Management
- Tools and Capabilities

For more information, do write in to:

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Be Patient

Analytics is a journey not a destination; a learning process and learning takes time. You simply can't rush the process. A simple analogy for this is painting. The prep work (sanding and taping) requires discipline and time up front, but it's critical to do before you ever dip a brush into the paint. And so it is with analytics. Typically, it takes at least 9-10 months of regularly working with data to start developing a steady stream of rich insights that can translate into competitive differentiation. Thus any analytics initiative needs an open-ended commitment because developing real analytical expertise is a long-term process.

All in all, analytics is the way to go for businesses today. But rather than jump in with a splash and risk the chance of incurring high costs without adequate returns, the key to successful fact-based decision making is to take it slow and easy. Start small- one business process at a time; bring in experts- people who have experience with not just the tools but the business aspect of analytics as well; Adopt an analytics based mindset- have the willingness to take decisions based on what the data says; and lastly, give it time.

So let the data analytics begin. As ESPN sports writer Rob Neyer puts it, "In business, the question isn't whether or not you'll jump into analytics. The question is *when*. Do you want to ride the analytics horse to profitability or follow it with a shovel?" We recommend you saddle up.

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