Strategy and the Role of Analytics

An Unbiased Investigatory Process

by Jon Craighead

There is a reason that 90% of strategic plans are unsuccessful, and that is they are often based on unreliable and incomplete data. In many instances the strategy process is a trip down memory lane. In the lightening-fast speed of our business environment it can be a serious mistake to depend solely on what has worked in the past, which is frequently based on undocumented recall as the source for planning our future. In his book Competing on Analytics, Thomas H. Davenport of Babson College, an academic and author specializing in analytics, business process innovation and knowledge management, describes analytics as "the use of statistical data and quantitative analysis as a process that leads to insight and applicable applications." He describes Business Intelligence and Analysis as follows:

Analysis
Optimization: What's the best that can happen?
Productive Modeling: What will happen next?
Forecasting/Extrapolation: What if these trends continue?
Statistical Analysis: Why is this happening?

Access and Reporting
Alerts: What action is needed?
Query/drill down: Where exactly is the problem?
Ad hoc Reports: How many, how often, where?
Standard Reports: What happened (from the actions taken)?

There are two immediate observations of Dr. Davenport's theories. First, they are in the form of questions vs. answers. Secondly, they are factually based not anecdotal. To create a non biased environment one needs to be in a questioning mode, willing to suspend preconceived ideas, at least temporarily, so that there is an opening to gain insight into what you don't know. This allows new ideas to be considered before being summarily discounted or dismissed. Most importantly, such action shines a light on areas previously hidden or unidentified. To demonstrate how analytics can be used, we'll look at two companies, Netflix and Harrods Gaming, which may provide some insights into analytical applications.

Netflix was created by Reed Hastings, a mathematician, former peace core math teacher, and movie buff, who took on the three-billion-dollar Blockbuster conglomerate because he saw a potential market deliverable that wasn't being provided and which an imaginative approach could satiate. Using algorithms he created a technique for free mailing and convenient packaging which simultaneously provided statistical data for future competitive advantage. By so doing he was able to collect viewing preferences and present like titles for the customer's future selection and provide multiple choices of genres. This also makes available data which permits an informed prognostication of future viewer preferences and helps create profitability by knowing how much to pay for new releases based on probability of viewer selection. This system of data mining offers customers low cost, efficient, easy, and greater entertainment value. The result of this ingenious creation was instrumental in Blockbuster's entrance into chapter 11 proceedings.

The gaming industry has for years identified high rollers and provided the verifiable and detailed preference information that drives their operational practices. Details such as game pricing, customer relationship management, loyalty programs, and procurement are essential data points. Game pricing and demand curves for each game accelerate profitability that exceeds eight figures while remaining unobservable and with little or no impact on customer enjoyment. This is another example of pulling together extraneous and sometimes unrelated data to build an operational strategy based purely on algorithms. While the exclusive use of historical data may often be unreliable, when this information is combined with updated and irrefutable data, it clarifies obscure and seemingly unrelated facts. This makes possible an important resource that is consequential to effective decision making, which is at the core of strategic management.

In summary, analytics is the extensive mining of data which is both statistically and quantitatively reliable and supports predictive modeling. This is a fact-based management process designed to drive decisions and actions with proven information. There is no foolproof method of predicting the future, nor should we expect such. It takes a willingness to freely explore all options and avenues with an open mind. Doing so fosters the pursuit to honorably serve the public, provide employment, and promote financial viability. Situational Awareness provides another critical and irreplaceable dimension of this process. These actions are the primary responsibilities of organizational leaders to insure a sound and durable market environment by time and again making the smartest decisions possible.