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Competing on Analytics: Video Transcript

Institute for High Performance

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* Where did we come from?
* How can we change?
* What do we know?
* How do we innovate and differentiate?
* What's next?
* What's possible?
* How do we stay ahead?

Imagine winning Major League Baseball titles despite the second-lowest payroll in baseball and a roster of misfits... overweight players, batters that don't hit home runs and a pitching staff that can't deliver a strike-out. Yet that's just what the Oakland Athletics did in 2002. How? By eschewing conventional wisdom and competing on analytics. Analytics revealed that hitters with high on-base percentages and pitchers who got lots of ground outs were the key to a winning season. The result? The Oakland A's reached the post-season playoffs three years in a row—a phenomenal record of success.

You don't have to be a sports team to win with analytics. More and more organizations have discovered the power of analytics to out-think and out-execute the competition:

* Netflix created a billion-dollar business in less than 10 years by applying analytics to predict customer movie preferences, as well as optimize every aspect of their business.
* Rather than build mega-casinos, Harrah's Entertainment uses analytics in every aspect of its business to delight its customers and drive superior profitability.
* CEMEX applies analytics to optimize throughout its supply chain and

differentiates itself from competitors. Once viewed as a commodity, CEMEX receives a premium price because it delivers ready-mixed cement within a precise delivery window.

As different as these organizations are, they have two things in common: they compete on the basis of their analytical capabilities—and they are highly successful in their industries—attributes that are not unrelated.

So what exactly are analytics?

Analytics are the extensive use of data—statistical and quantitative analysis—explanatory and predictive models;—and fact-based management—that together drive decisions and actions. Analytics may be input for human decisions or they may drive fully automated decisions. Analytics are a subset of what has come to be called business intelligence—a set of technologies and processes that use data to understand and analyze business performance.

Good analytical capability requires robust hardware and software, of course. It also requires good information management to integrate, extract, transform and access business transaction data. But analytics can't do without the human element. The human and organizational aspects of analytical competition are truly differentiating. Smart humans still need to interpret patterns that are identified—translate insights into recommendations for action—and then actually take action.

When all this comes together, analytics can generate a new and lasting competitive advantage. Today, that's very difficult to achieve. Most of the previous bases for competition are no longer valid. Companies in many industries offer similar products. They use comparable technology. With global competition, physical location no longer matters. Protective regulation is largely gone. Proprietary technologies can be copied quickly. Breakthrough innovations often fail.

What's left as a basis for competition is to execute your business with maximum efficiency and effectiveness—and make the smartest business decisions possible.

When you do that, you win—and you win consistently. Our research proves it. We found that high performance businesses have a much higher analytical orientation than other organizations. Fifteen percent of top performers compared to only 3 percent of low performers—five times as many!—told us that analytical capabilities are a key element of their strategies.

Across the board, high performance is associated with more extensive and sophisticated use of analytical capabilities. These numbers say it all: — Compared to low performers top performers have significantly more sophisticated decision-support and analytical capabilities—on their own and with their industry —their management values analytical insights more;—and their use of analytics across the entire organization, not just within a specific function.

Analytics can improve almost any business process—, like finding the best customers and charging them the right price;—minimizing inventory and maximizing availability in supply chains;—hiring the right talent;—allocating costs accurately;—and understanding how financial performance is driven.

Organizations that do these things better than anyone else in their industry often use analytics to develop a distinctive capability—a key building block of high performance. Capital One, for example, uses analytics to stay consistently ahead of the competition. The company conducts more than 30,000 experiments a year with different interest rates, incentives and direct-mail packaging. It aims to maximize the likelihood that potential customers will sign up for credit cards and pay the money they owe. Competing on analytics has spurred at least 20 percent growth in earnings per share every year since the company went public.

Some industries clearly find it easier to use analytics than others. If your business generates a lot of transaction data—as in financial services, retail, travel and transportation or gaming—competing on analytics is a natural strategy. Analytics themselves don't constitute a business strategy. But using them to optimize a distinctive capability certainly is a strategy.

Government agencies that are information intensive—such as homeland security, intelligence, the military, revenue and police—also compete on their ability to out-think and out-analyze their "competition."

If your business is based on hard-to-measure factors—like style, as in the fashion industry, or human relationships, such as executive search—it will take much more groundbreaking work to compete on analytics.

Still, virtually every day you can see examples of businesses that used to be intuitive but are now becoming more analytical. Movie studios have used statistical analysis and computer models to understand why ratings on a given film will vary from country to country—and more radically, how to evaluate scripts to produce money-making films more consistently.

Skeptics will say that analytics can be easily replicated, so how can they be the basis of lasting competitive differentiation? However, analytical processes based on proprietary methods or data are actually quite difficult for competitors to copy. More significantly, while it's true that some individual analyses can be easily replicated, having an analytical capability allows you to move on by the time everyone else catches on to what you're doing.

Progressive Insurance is the classic example. The company used a lot of publicly available data to segment high-risk groups like motorcycle riders and find the sub-segments that were extremely desirable—the ones who always wore helmets, the stock broker who rode only on weekends, and so forth.

Sure, other insurance companies caught on to the strategy, but not before Progressive had captured the lion's share of the market and was on to the next big opportunity.

When it comes to building an analytical capability, four elements are critical:

* An important and distinctive capability that differentiates your organization from competitors'. It's your formula for business success.
* Application of analytics across the enterprise. The Red Sox actually lost the American League Championship Series to the New York Yankees in 2003 because the manager failed to pull the pitcher after seven innings,—even though analysis conclusively demonstrated that he fell apart at that point. Analytics have to spread everywhere within your organization and be applied consistently if analytical decisions are to be implemented.
* C-suite sponsorship is a pivotal factor in how fast and how well your organization adopts a broad analytical approach. It will require changes in culture, process, behavior and skills for multiple employees. These changes don't happen by accident. They must be led by senior executives with a passion for analytics and fact-based decision making.
* Finally, aim high. Have a large-scale ambition so that you can achieve big results. The analytical competitors we studied bet their future success on analytics-based strategies.

Over the next five years, more and more organizations will choose to compete on analytics as a way to outperform their competitors. You really have no choice. Just like sports teams, you have to continue innovating and building your analytical capabilities if you want to stay in front.

In the colorful words of Rob Neyer of ESPN—: "In business, as in baseball, 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?"

The first step is to determine how analytically oriented your organization is right now. Our five-stage model lets you chart your progress on your journey towards analytical maturity. A road map also outlines how to move sequentially through the five stages—whether on the fast track with top management support or by building momentum and proving the value as you go when top management support is missing. We also show how the important resources of technology and data need to be part of an overall analytical architecture that drives results.

Some people have compared the spread of analytical competition to "the revenge of the nerds." That's not really true. But a Ph.D. in applied mathematics may well become the MBA of the 21st century.

Whether or not that happens, however, one thing is certain: analytical competitors will make a lot of money, win a lot of games and help solve some of the world's most pressing problems. They will continue to lead us into the future.

Will you be one of them?