Turning Information into Profit for Mid-Market Companies

Using information wisely, a company can achieve higher growth targets and increase profit margins.

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It's a common dilemma for executives who run mid-sized companies: seek ways to grow the business and at the same time stay close to the pulse of the organization as it expands. Plus, there's the ongoing burden of trying to predict what lies ahead. But through the intelligent analysis of information that already resides within a company's various databases, more profitable decision-making can be achieved, both today and in the future.

One key advantage that a medium-sized business has over its larger rivals is its ability to make quick decisions that adjust the course of the business in order to capitalize on the latest market trends. With a standardized approach to gathering data from the business, leaders can use this reliable business intelligence (BI) for better decision-making.

Generally, mid-size companies have a small IT staff with a broad range of responsibilities. These people understand what the business needs and how it operates. While a small IT staff can be a challenge when it comes to implementing new technologies at a fast-growing business, those employees have the advantage of being close to the business, which can benefit the implementation of a BI initiative. That's because the most common problems companies run into when implementing BI solutions are not technical, but instead are frequently organizational or political, and IT people at smaller companies better understand the inner workings of the business and are therefore able to avoid many political pitfalls.

Avoiding a State of Perpetual Fog

To gain maximum insight, businesses often monitor their operations through the lenses of operational systems, each with a separate "silo" of information. The daily, weekly, and monthly reports from the operational systems might offer data on product sales, individual store sales, inventory status, current account balances, and so forth; however, these reports cannot give information regarding cash flow trends, customer or product profitability, and year-to-date or month-to-date comparisons.

Many companies get their business information in spreadsheets that are created from a number of separate operational reports. Unfortunately, the managers' reports may be as varied as the individuals who create them, and the numbers may not combine to provide a coherent picture of the business. While the management team struggles to stay on the same page and agree on what figures are the more accurate among the different company reports, the competition will be a step ahead.

The variety of formats in which the data and reports are presented can become an area of friction in the company, and worse, can actually cloud an executive's vision of where the company is headed, thus creating a "perpetual fog" that envelops the business.

Data collection is usually not a problem. Most medium-sized companies have databases with information that can be extracted to provide comparative analysis. In general, medium-sized businesses do not see the need to consolidate information in order to understand what is going on in the business. But looking at product revenue information in the order entry system provides only part of the profitability equation.

Product expense information is often stored in another system. In order to understand product profitability, both revenue and expense information need to be analyzed.

Getting Started

Many medium-sized businesses do not think they have the infrastructure or skills that are needed to implement a BI solution. But BI projects do not need to be large, multi-year data warehousing projects.

All business today has some level of reporting solution. The key is to streamline the processes that are being used to make decisions. IT leaders must analyze how information is being used in the business. For instance, you should determine which users employ reporting and analytic tools the most and then ask what information they need.

After you have identified your power users and learned how they use reports and what information they desire, you are ready to take the next step toward enabling analytics to help guide the company.

To get started, you need an active database of the business and an understanding of what information the business users need to make decisions. You can perform some level of analysis directly against the data in your operational systems, but it can be very difficult to analyze data that is stored in the operational or transaction-based systems because that data is formatted for efficient transaction processing, not for analysis. It is also difficult to combine data from multiple applications to get the bigger picture. Whether you are running the business on iSeries eServers or a variety of other systems, drawing data into a central source or data warehouse for analysis is an important step.

Medium-sized businesses are in a more advantageous position than their larger competitors when it comes to centralizing their data and implementing BI solutions, as most big companies have a much more complicated business and IT structure. This infrastructure can make it difficult to focus on the business issues instead of the technology issues.

Once the BI infrastructure is in place, it lays the foundation for more successful growth in the future. This is especially true for companies that have an acquisition strategy for growth. Acquisitions are important for growing mid-sized businesses, but they can cripple the business if there's no infrastructure in place to quickly integrate the information from the acquired company. Businesses cannot afford to wait for all of the operational systems to be integrated before they see the whole picture. A BI infrastructure can help businesses see the big picture more quickly.

Think Big, but Start Small

Don't focus on the technology first; focus on what the *end users* want. Have a specific business problem that you want to address and keep it within reason.

Start out small. Look for one department or one aspect of the business that can most benefit from business intelligence. Use it to demonstrate the ROI that can be achieved, rather than try to sell new technology across the whole business. Areas to consider might include sales forecasting, product or customer profitability, seasonal sales trends, or inventory turns.

For example, Chase-Pitkin, a regional home improvement retail chain that competes with the nationally known big-box home improvement centers, had been using analytics software to track and assess product shrinkage. Shrink can occur in a variety of ways, such as through theft or a clerical error in receiving. The company started small by focusing on the tools department, which represents approximately 10,000 items, including power tools. Using analytics of the database, the company identified the top 16 items that represented 50% of the shrink.

By focusing on these 16 items, including monitoring them by store cameras, managers were able to determine that shoplifting was the cause of shrinkage for these particular items.

Chase-Pitkin has since developed policies to prevent theft and also now inventories these items on a weekly basis. As a result, shrink on these items has been reduced by more than 50%.

This result was enough to justify the company's investment in BI software, but the company ended up getting a lot more. In the process of determining how to measure product shrinkage, it discovered the importance of tracking its entire product life cycle and understanding where its products were in that life cycle. Chase-Pitkin was able to track its product life cycle and make important changes to processes so that management could know immediately when there were changes in product sales and inventory trends.

A larger retail organization may have had trouble making such drastic changes to its processes. But because Chase-Pitkin was able to make these changes while it was nimble, the company is better positioned for future growth.

Predicting What's Ahead

Having a strong BI infrastructure in place will help mid-size companies make that next step to predictive analytics. By first understanding what is currently happening in the business, companies can better predict the future.

The next step is to use the BI platform to develop a set of predictive analytic tools to delve deeper into trends that can impact the business. Although business intelligence can help you understand customer profitability, it is not always easy to understand what the attributes of those profitable customers are, how to get more of them, and how to avoid losing the ones you've got. Predictive analytics can help you understand this by automatically discovering the profiles of your most profitable and loyal customers. Then, by feeding data on loyal versus disloyal customers into intelligent algorithms, predictive models can be generated that assign defection risk scores to individuals. Based on those scores, the company can take crucial steps to keep profitable customers that otherwise might have defected, thereby changing the predicted outcomes.

Organizations that incorporate Predictive Analytics into their daily operations in this way improve their business processes, enhance decision-making, and gain the ability to direct, optimize, and automate decisions, on demand, to meet defined business goals. Through predictive analytics, companies better manage the present and increase the probability of future success, turning predictions into profits.

For mid-sized companies, it is not too early to start thinking about building an information infrastructure for growth and profitability. By starting out small and executing one project at a time to firmly establish a BI infrastructure, IT managers and consultants can help an organization ascend to the next level and become a predictive enterprise that is able to anticipate and control the outcome of their daily business decisions.