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The ABCs of Analytics

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BY DAVID MEER

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B*ig data* — the explosion of quantifiable information, much of it generated by people’s behavior on the Internet and social media — has captured the imagination of companies, academics, and the media. Executives are rightfully intrigued by the idea of drawing conclusions about their customers’ buying propensities from details of their activity: who they’re connected to, what they like. This promise is born partly of the fact that the data for Internet-based analytics is already being captured on computers, there to be sorted, filtered, and modeled.

Undoubtedly, big data will be the next game changer for marketers, but some will gain more advantage from it than others. Because of the automated tools that are available for mining data today, many executives assume that they will be able to easily uncover trends that weren’t previously visible. But analytics involves more than just knowing the facts. It requires the right analysts asking the right questions to make the right decisions. Any analysis of data that stops after asking “what,” which is already a big undertaking, isn’t analytics. You have to ask “why?” and “what next?”

To answer these questions, and to leverage big data’s full potential, companies need to go back to basics. Having been closely involved in the evolving marketing analytics landscape over the past 25 years, I’ve learned three pragmatic lessons that have always been at the core

of a strong analytics program, and should guide your initiatives today: Rely on theory-based approaches, not blind data mining; strive for a holistic view of your customers and markets; and learn by doing.

It Starts with a Theory

Without a theory about how consumers form preferences and act on them, an analyst will quickly be overwhelmed by the amount of data available, and all the processing power in the world won’t help. The starting point should be an explicit hypothesis about the needs of your customers and how you create value for them. It may be a new product in the lab that you think has the potential to be a runaway hit. Or it may be that there are customers in your market who aren’t really loyal to anyone — “undecided voters” whom you could capture with some slightly altered proposition. Once you’ve gathered the data required to test your hypothesis, the analysis will usually lead you to specific ideas for developing winning value propositions and taking them to market. Superior segmentation — clustering your customers and prospects based on similar behaviors or preferences — can lead to much more effective targeting strategies.

One pharmaceutical company trying to increase sales of a drug that was in decline, and for which the sales staff had been severely cut back, decided it might

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benefit by deploying its remaining salespeople more strategically. Company leaders' hypothesis was that their current sales plan was not effectively targeting physicians with the highest potential to prescribe their drug. To test this, the company gathered a large data set on all the physicians treating the medical condition for which this drug was prescribed — how many prescriptions the physicians wrote each year, whether the number of prescriptions they wrote was growing or declining, and to whose formulation (the company's own or that of their main competitor) the physicians were loyal. This allowed the company to identify a sweet spot in the market: physicians who wrote a lot of prescriptions to begin with; who were increasing the number of prescriptions they wrote each year; and who were not loyal to either manufacturer's formulation, dispensing prescriptions for both about equally. The sales team made a beeline to pursue this opportunity, with results that exceeded their expectations.

A Day in the Life

One of the key lessons from the history of marketing science is that when a new data source becomes available, everyone is quick to fall in love with it. But smart companies take a step back and strive for a holistic view of their customers and markets. They enthusiastically mine the new data source without discounting other

information that may provide critical missing pieces to the analysis.

Remember that this is not the first time a data revolution has changed the game for marketers, and previous transitions were not always smooth. In the mid-1980s, the introduction of barcode scanning enabled companies to gather information at the check-out register. Before that, data was limited; companies knew what they shipped, and they could ask people what they bought. But with the advent of scanners, they could actually see what was happening at the point of sale. In the early years of this technology, this new awareness led to a number of missteps. Executives became overly focused on the impact of price promotions on sales and lost sight of marketing fundamentals: brand equity and brand building. Over time, however, companies developed more sophisticated statistical models and refocused their energy, and scanners became the biggest boon to consumer marketing and retail in the last 30 years. (Today, this point-of-sale knowledge has been extended to include loyalty card data, which provides retailers with insight into what individual households put in their shopping baskets, and online shopping behavior.)

Like the flawed marketing ROI models of the barcode's early years, the newest big data analyses can be misleading. Many retailers say, "I know everything

about what moves off my shelves. I know a lot about my customers who have loyalty cards. But when we put more things on the shelves that resemble the things they're already buying, we don't see the growth we're expecting."

What's missing? It's likely that by focusing on the newest source of data, the retailer has unintentionally developed a one-dimensional view of its customers. What it needs, however, is the broadest possible view of a customer's path to purchase. We sometimes call this perspective "a day in the life." It means understanding more completely how your interaction with a customer fits in with all the other interactions he or she has with other retailers or (as the case may be) other businesses, shopping channels, or activities. Without that insight into what is prompting a customer to go somewhere other than to you, your growth initiatives can become a crapshoot.

Learning to Walk

The first steps you take to acquire, harmonize, and mine new data sources almost always lead to exciting new insights. As you gather these insights, it will be important to be open to new approaches and to challenge sacred cows. You may learn things about your customers that cause you to question certain products, services, or strategies. It can be a lot to take on. Rather than recommending that companies go whole hog with analytics all at once, I often advise them to undertake a few pilots. It will benefit them to learn to walk before trying to run: They can pick a product, a geography, and a problem that they want to focus on, and demonstrate to themselves that the return on effort and cost justifies the undertaking.

For example, a global energy giant decided to tackle the question of quantifying and improving its return on marketing investment using more advanced analytics. Senior leaders selected two business units within three countries, spanning developed and developing markets, to conduct pilot projects. The conceptual framework and goals for each project were the same, but operating gas stations in Europe and selling motor oil in Asia required different data sets and analytics tools. This

diversity enabled the corporation to gain experience with a wider set of possible approaches, and to determine which ones should be employed in which situations. In addition, they shared their success stories with other business units and countries to build enthusiasm for the initiative. The result was a sophisticated yet pragmatic program that was eventually rolled out, accepted, and used around the world.

Getting Back to Basics

Many executives are interested in using big data but have relatively little direct experience with the latest analytics tools and techniques. Right at the start, they typically ask me what it will cost. The response I am tempted to give is: "What's the cost of making the wrong decision? What was the cost to Kodak of not reacting quickly enough to the advent of digital photography?" My less glib answer is that analytics can require a major investment, beginning with just assembling and harmonizing the data. On top of that, companies need specialists who are trained to do the more advanced work to find hidden patterns, interpret them, and turn them into insights the company can put to use.

But as these three fundamental lessons show, it can be a manageable process with the potential for significant rewards. In fact, it's been my experience that once companies start investing in analytics, they almost never stop. The things they learn drive improvements in the business that more than pay for the effort. Analytics becomes a self-funding way for companies to improve their position in the market. +

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