AlixPartners

FROM INFORMATION TO ACTION TO PROFITS

How business-intelligence-driven KPIs enable better customer experiences and improved operations

Across the business landscape, corporate giants as well as small- and medium-size enterprises alike are digitizing every phase of their operations—from the shop floor to the sales floor and everywhere in between.

A new series of articles from AlixPartners is focusing on leaders of companies that are just setting out on their digital journeys and that want to make substantial progress quickly and affordably. The first article in the series details how systems accelerate the fusion of business and technology and lay the foundation for digital reinvention.

This second article discusses how business-intelligence-driven key performance indicators turn raw data into actionable information and how companies can use that information to support better customer experiences and dramatically improve their operations. Upcoming articles will cover turning metrics into results, learning the basics of business intelligence technology, and making deep dives across functional areas.

It's hardly a secret that the more robust a company's business intelligence (BI) capabilities are, the better the company's financial performance.[1] BI—in conjunction with the key performance indicators (KPIs) that BI feeds and enables—gives companies the power to make smart, fact-based decisions, the information needed to improve their operations, and the advice necessary to enhance the experiences they offer customers. But if all of that is so widely known and accepted, why do more than 50% of companies worldwide lack adequate business intelligence capabilities?[2]

One possible explanation is that when leaders of those companies look at BI implementation and digital transformation, they see only a massive undertaking that would consume disproportionate amounts of financial and human resources and take years to execute. If those leaders looked closer, though, they might see that today's business technology marketplace is teeming with affordable BI solutions. Within a matter of weeks, they could stand up a comprehensive BI solution with KPI reporting and dashboards that would have positive impact across the business. And that such technology requires little or no custom coding, thereby eliminating the need for costly special programming.

1. *The Race to Become Future-Ready,* a joint research report by AlixPartners and MIT Center for Information Systems Research, April 2017
2. Ibid

Think of KPIs as the guideposts by which leaders steer their businesses. The typical KPIs that lead to success track (1) both sales and operational metrics and (2) their impact on revenues and profits (figure 1). Measurements involving both sales and operational dimensions are necessary because as joint research by AlixPartners and MIT CISR confirms, companies have to balance investments in customer experience against investments in operational excellence in order to obtain the best overall results.

Overinvesting in the customer experience increases revenues but tends to compress margins because spikes in customer activity increase handling costs that companies cannot manage without comparable investments in operations. Overinvesting in operations, on the other hand, yields efficiency gains that improve margins but usually have little impact on revenue growth without corresponding digital investments to improve sales and the customer experience.

FIGURE 1: A ROUGH TAXONOMY OF KPIs AND WHAT THEY MEASURE

SALES		OPERATIONS	
Customers	Behaviors, performance, and profiles	**Profitability**	Customer-level and product-level profits
Prices	Competitor prices and elasticity	**Labor**	Productivity and management depth
Promotions	Effectiveness and relevance	**Spending**	Cost insights and fluctuations
Sales	Referrals and sales force effectiveness	**Asset usage**	Facility and equipment utilization

MEET THE METRICS

Typical sales KPIs focus on customers, prices, promotions, referrals, and the sales force. Those KPIs are operationalized by applying them to optimize such activities as:

Lead generation: Customer relationship management systems are common for pursuing new customers and managing existing ones, but they become much more effective when driven by analytics that isolate the most profitable potential and existing customers, which are assigned to the best salespeople.

Dynamic pricing: Pricing KPIs, combined with competitor prices scraped from the Web and elasticity analytics, enable companies to set optimal prices and adjust them so they're in line with shifting supply and demand patterns.

Allocation of marketing investments: By analyzing the effectiveness of past promotions across customer and product types, companies can optimize returns from future promotions.

Referrals and sales performance measurement: Tracking sales, associated costs, and return on investment across referral sources and salespeople helps identify the most valuable referrals and the salespeople with the best relationships and results, as well as underperforming resources and relationships.

Typical operational KPIs focus on profitability, labor investment performance, spending, and asset usage, and management can use them to guide its operating decisions. Examples are:

Profitability detail: BI can deliver KPIs that result in a granular understanding of the relative profitabilities of customers and products after factoring in the full cost (including service and overhead costs) of each customer and product. The same analytical method can be applied to channels, contracts, and other profit components. Sales management can then reorient resources and spend toward the highest value customers and prospects—and discontinue products and customers if it is determined that they can't be profitable.

Returns on labor investments: These metrics track worker productivity and the layers of management needed to maintain or improve it. Plant managers can use the data to support scheduling, manage head count, minimize downtime, and profile the highest performers to yield better training and targeted recruitment. Similarly, brick-and-mortar retailers can use metrics involving expected store traffic to optimize the number of salespeople on the floor.

Spending performance: By tracking where money gets spent, spending-performance KPIs help finance managers identify and understand areas of over- or underspending, which appear in the KPIs as outliers. Regular-spend analytics across cost categories and vendors and comparisons to budget facilitate prudent cost management.

Asset usage: KPIs that deliver insights into productivity and asset usage help finance professionals determine whether assets are being optimized, and they pinpoint opportunities to reduce costs and increase proceeds from asset dispositions. Typical KPIs cover the use of plants and equipment, the use of real estate, and the performance of other fixed assets.

HEATING UP SALES AND EFFICIENCY WITH BI

To better understand how BI and KPIs can drive improved performance, consider, for example, how the National Basketball Association's (NBA's) Miami Heat uses its BI system to significantly increase revenues while improving customer satisfaction and reducing operating costs.[3] The system, which replaced manual processes for reviewing and analyzing information that was usually outdated anyway, compiles digital data generated by existing and potential customers such as ticketing information, purchasing history, website visits, loyalty program activity, and other transactions. The Heat, fielding essentially the same team as the previous year, used that intelligence to boost ticket sales by 30% and increase revenue from other activities such as concessions and merchandise sales.

Business intelligence enables the Heat to make the most of all the activity that goes on at an NBA game—besides the on-court competition—by gathering data into a BI environment and using it to develop a deep understanding of fans. The data, coupled with predictive machine learning, enables the team to profile fans and determine how likely they are to make future purchases. The predictive scores help the sales team identify top sales prospects and personalize offers through digital channels by means of messaging, content, and products that match fans' interests and experiences. The data also helps the sales team profile potential new customers and prioritize them by their potential value.

The organization also leverages its BI capabilities to serve customers more efficiently—and at reduced cost. By combining data sources and layering in predictive analytics, the Heat can predict attendance with 96% accuracy two months before a game and with near exact precision shortly before game time. The Heat uses that knowledge to make operational shifts that improve the customer experience and better manage costs and resources. For instance, the team increased revenues and lowered costs by adjusting hourly workers' schedules to better match fan attendance patterns.

3. How the Miami HEAT Used Power BI to Drive Business Decisions webinar, https://info.microsoft.com/ww-Thankyou-How-the-Miami-HEAT-Used-Power-BI-to-Drive-Business-Decisions.html?LCID=EN-US

GETTING STARTED WITH BI

Companies can create and start to operate comprehensive BI functions in as little as two to four months. That's the typical time needed to set up nearly real-time reports and dashboards that display comprehensive KPIs that business operations can put to effective use. From that solid foundation, companies can then move on to full digital transformation, wherein sales and operations get optimized by way of digital methods.

The BI and KPI development process incorporates a whiteboard-to-dashboard method that follows agile practices collectively deployed by business, finance, and technology functions (figure 2). Senior management collaborates with operational and functional leads around a whiteboard to produce a hierarchy of KPIs that proceed from observed results to actionable operational steps. Business leaders are accountable for making the BI system a reality and driving value creation initiatives. They are supported by business and technology managers who jointly design, plan, and implement the system. The managers in turn are supported by functional, financial, and technology experts who contribute to development and execution.

Once the whiteboarding team has identified the key information that can be used to improve business operations, a team of business experts then develops a vision of how that information can best be disseminated and operationalized. Next, the experts develop business rules that set forth the ways to use the KPIs for running operations and making decisions. With those elements in place, the team of experts then turns to the development of reports and dashboards populated with static data that can be quickly adapted to handle dynamic, real-time data.

FIGURE 2: THE BI AND KPI DEVELOPMENT PROCESS

PHASE 1	PHASE 2	PHASE 3	PHASE 4
Workshop and KPIs	Collection and calculations	Static prototype	BI solution
Hold interviews and workshop to create KPIs and dashboard mock-ups. Determine source data systems needed for KPIs.	Extract data from source systems. Calculate KPIs from data collected. Reconcile KPI calculations to books.	Develop off-line data warehouse and BI analytics and dashboards. Develop workshop prototype for feedback and changes.	Convert off-line prototype to automatically update from source systems. Operations change management to use new BI.
1 week	2 to 3 weeks	3 to 4 weeks	2 to 4 weeks

CONCLUSION

Rapid business intelligence gets accomplished when business leaders own and drive a focused, intentionally agile process to develop, test, and activate a BI system and a hierarchy of relevant KPIs. At the end of the process, companies have become capable of operating differently by using nearly real-time information to run their businesses. It's a way of functioning that we at AlixPartners call metrics to results. And we'll have more to say on the subject in future articles.

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ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.