

Clearing the confusion The what and why of business analytics

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One question I hear again and again from clients is, “Just what is Business Analytics?” Sounds like a simple question — one that any information technology person (IT) should be able to answer quickly and accurately. It turns out, however, that the answer is not so simple, and the definition always depends on whom you ask. I’d like to throw my opinion into the fray.

Over the years, in dealing with literally hundreds of analytics-based projects, I have honed my internal definition of the term “Business analytics” (BA). Business analytics is a process that refers to the use of skill-sets, technologies, applications and practices for continuous, iterative exploration and investigation of past business performance. It is used to gain insight and drive business planning. The process of BA makes extensive use of data, statistical and quantitative analysis, explanatory and predictive modeling, and fact-based management to drive decision making.

There are several disciplines that make up the BA process. They are:

1. Analytics
2. Performance Management
3. Business Intelligence
4. Data Management

Each one of these disciplines furthers the goals of BA and provides its own unique, important capabilities to the overall BA process.

Analytics is the use of modern data mining, pattern matching, data visualization, and predictive modeling tools to produce analyses and algorithms that help businesses make better decisions. With regards to topics such as customer management, pricing, supply chain, logistics, workforce analysis, Analytics helps companies answer questions such as: “Why is this happening?” “What if trends continue?” “What will happen next?” “What is the best outcome?” Thus, Analytics can provide foresight into the future and what events may have the most impact on the enterprise as a whole.

Performance management is an umbrella term that describes the methodologies, metrics, processes, and analytical applications used to monitor and manage business performance. Examples include:

- Budgeting, planning and forecasting
- Profitability modeling and optimization
- Scorecard applications
- Financial reporting and consolidation

Performance management can also provide insight into the future, as well as insight into current activities and events. Business intelligence (BI) is the use of querying, reporting, OLAP, and "alerts" that help answer event-based questions such as: "What happened?" "How many?" "How often did it happen?" "Where exactly is the problem?" and, "What actions are needed to resolve it?" So, BI is best for gaining insight into current activities and events, as well as understanding what has happened and how those events have affected the business.

Finally, data management is the development and execution of architectures, policies, practices and procedures designed to help properly manage the collection, quality, standardization, integration, aggregation, and governance of data across the enterprise. Data management primarily involves looking backward and figuring out how to learn from the past to improve the present and future.

There are multiple drivers of investments in BA technologies. First, companies collect vast amounts of information about their business activities and customers via transactions generated through CRM, ERP and online systems, among others. However, this discrete information doesn't provide an integrated view across the enterprise. The problem of data is literally growing out of control, and the lack of a holistic view will begin to cripple many companies in the not-too-distant future.

Compliance needs also drive the push for better BA capabilities. BI applications, reporting, and Analytics tools are key enablers to support regulatory requirements. Costly as it may be, most companies have no choice but to implement these tools in order to adhere to compliance measures, and monitor and mitigate risk.

Finally, increased performance and competitive demands are intense drivers of improved BA capabilities. The need to remain competitive compels companies to invest in BA tools that improve insight into business and market information, which in turn can enable more informed and proactive decisions. Most companies have also implemented comprehensive performance management systems to deliver information to decision makers to improve insight and outcomes.

So how do BA capabilities meet these needs? They can shift the paradigm. Over the last couple of decades, companies have been investing heavily in ERP systems to streamline their processes. This has resulted in a significant increase in organized data; however the focus has shifted from simply organizing data more efficiently towards analyzing information to improve performance. Business analytics can help companies move from answering the question, "What do I need to do?" to answering the more complex, nuanced question of, "What do I need to know?"

This paradigm shift is the wave of the future. Most companies know what they need to do. To stay ahead of the competition in the future, companies will need to slice and dice their data in myriad, ever more complex, ways in order to understand what they need to know about their business to improve its performance. One way to gain this knowledge is to leverage BA to gain foresight as well as insight. I believe that companies that are best able to leverage BA capabilities will certainly gain a leg up on their competition and better position themselves to thrive in an uncertain future. We'll see, won't we?

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