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Strategic precision: using data as a strategic weapon

In a series of blogs we will discuss the use of data analytics in strategy development. In this blog we will share our view on the concept of strategic precision enabled by the smart use of data.

Strategy and strategic precision: play where you can win

So what is strategy actually? In the military it is: "the science and art of employing military forces to meet the enemy in combat under advantageous conditions". To win, generals should decide where and when to fight (e.g. which terrain) and how to deploy their resources (e.g. weapons) to achieve the highest chance of winning. Likewise this holds for businesses: a business can only win when they deploy resources (e.g. sales people, marketing spend,..) in those market segments where they have a competitive advantage (lowest price or better product value).

Consequently one of the fundamental questions in a strategy is the 'where to play' question. In our client work we often experience 'at best' that 'where to play' decisions are far too broad and ambiguous to actually define a significant competitive advantage. The consequence; wasting truckloads of resources on unprofitable (market) segments or on segments where competition is coming from all directions.

In our GrowthPath® work we cracked this problem with our Strategy Analytics team by introducing the concept of strategic precision: slice the business in highly granular micro-pockets on multiple strategic dimensions. These strategic dimensions should be 'meaningful' (discriminate between profit and competitive advantage) and 'actionable' (observable for managers to act upon). Based on this diagnosis we then can engineer or re-engineer a business by selecting, with surgical precision, those micro-pockets where competitive advantage and profit can be maximized. Essentially we re-build the business.

Based on these premises we helped an energy distribution client where 10% of customers drove more than 50% of the profit. Analytically, this might not seem surprising, but managerially these insights resulted in a complete revolution as all customers (and budgets for these customers) were treated equally. We re-engineered their business maximizing their market share in highly granular micro-pockets that hold the most valuable customers and started building competitive advantage for these type of customers. These segments have been defined across several dimensions; customer business characteristics (e.g. large hotels), regional (e.g. municipalities) and customer journey (e.g. switching from a competitor). Now they are dominating the profit pool in their industry.

Strategic precision is enabled by the smart use of data

So what is data? Cambridge dictionary defines data as: "information, especially facts or numbers, collected to be examined, considered and used to help decision-making, or information in an electronic form that can be stored and used by a computer". Business data, both internally generated or externally acquired by businesses, are more and more being logged ('datafication'), pre-dominantly driven by advances in information technology (e.g. more and cheaper computing power and storage). In our client work, we often experience that indeed businesses collect and own enormous amounts of data ('big data') but that they do not make use of it, or even worse, spend enormous amount of effort on strategically irrelevant analyses. The consequence: There is a huge improvement potential in how businesses use their data.

Our key assertion is that the collection, combination and interpretation of data should be 'smart' on two fundamental dimensions: strategic and technological. On the strategic dimension, the collection, combination and interpretation of data is the 'fuel' for strategic precision. Therefore, the data on the basis of which decisions are made should be 'meaningful' (discriminate between profit and competitive advantage) and 'actionable' (observable for managers to act upon). On the technological dimension, the right combination of data sources (e.g. sensors, human input), data consolidation technologies (e.g. data lake, cloud storage, data warehouses) and data analysis techniques (e.g. segmentation, regression, classification) can contribute in transforming business data into data with strategic value.

Based on these premises, we combined internal customer data to assess profitability with multiple external data sources to observe (characteristics of) highly profitable customers for our energy distribution client. For example in one of the segments, the key profit driver was the volume consumed, which was highly correlated with number of hotel rooms for hotel customers (which could be extracted from a database). An algorithm was developed to continuously process new data in the hotel segment and select the most attractive customers. In addition, combinations with other data (such as region, permits) were used to further slice and narrow the type of hotel customers to target and tighten the moment in time when to best target them. Based on a closed loop learning system (injecting the result of marketing & sales efforts) the algorithm evolved and more variables could be included, making the use of data smarter and enabling strategic precision. Targeting these granular value pockets across segments has resulted in tens of millions of additional annual value for our energy distribution client (of which a share already during the project through early tests). Helping them develop their capabilities with our Strategy Analytics team to collect, combine and interpret the data and drive strategic precision as well as embedding the closed loop learning system to execute, ensured the sustainability of this value creation going forward.

Strategic precision as growth driver

In this blog we specifically focused on the value of the smart use of data in developing strategic precision, enabling better 'where to play' decisions. Key assertion is that either strategy or data (analytics) alone is not enough to develop business value. Fundamental in developing business value is the combination of strategic insights with data (analytics) so that both can re-enforce each other. This enables in itself a competitive advantage driving above industry average growth for a business. With that in mind CEOs should assess whether their current data 'assets' are being utilized to their full strategic potential as discussed above or whether data can be generated or collected to increase strategic precision.

Of course there are, next to the 'where to play' decision, also other strategic decisions which can be improved by the smart use of data. We will explore this in our next blogs.

Contact

Nils Wolthuis
Senior Manager
NWolthuis@deloitte.nl
+31882886797

Mohamed Chahbari
Senior Consultant
MChahbari@deloitte.nl
+31882886382

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