



Competing on Analytics: A New Differentiation Strategy

Take some overweight players, batters that don't hit home runs and pitchers that don't strike out and what do you get?

Overview

A winning Major League Baseball team. That's what the Oakland Athletics discovered in 2002 when they turned to analytics to make up for the second-lowest payroll in baseball. The team discovered that wins could be had by more affordable methods, such as hitters with high on-base percentages and pitchers who got lots of ground outs. As a result, the Oakland A's reached the post-season playoffs three years in a row, despite having one-third the budget of the New York Yankees.

More and more organizations—as disparate as Netflix, Harrah's Entertainment and the global cement giant CEMEX—have discovered the power of analytics to out-think and out-execute the competition. These market-leading companies see their ability to exploit analytics as their distinctive capability—the integrated business processes and capabilities that together serve customers in ways that are differentiated from competitors and that create an organization's formula for business success.

Background

Analytics (as well as data access and reporting) is a subset of what has come to be called business intelligence—a set of technologies and processes that use data to understand and analyze business performance.

Why compete on analytics? At a time when companies in many industries offer similar products and use comparable technology, many of the previous bases for competition are no longer viable. In a global environment, physical location is frequently not a source of advantage, and protectionist regulation is increasingly rare. Proprietary technologies can often be rapidly copied, and attempts to achieve breakthrough innovation in products or services often fail. What's left as a basis for competition is execution and smart decision making. An organizational commitment to and developed capability of analytics is enabling market-leading companies to succeed in the rapidly evolving arena of global competition.

Key Findings

Accenture has found that analytical strength can have a direct impact on a company's ability to generate a new competitive advantage. In a global survey of 450 executives in medium to large organizations conducted in 2005, Accenture discovered that high-performance businesses are 50 percent more likely to use analytics strategically compared with the overall sample and five times as likely as low performers. These results, coupled with strong evidence that companies are increasing their commitment to analytics, highlights the importance of this relatively new strategic approach.

A comparison of two surveys—one conducted in 2002 and the other in 2006—demonstrates this increasing focus on analytics. In 2002, nearly half (45 percent) of the companies Accenture surveyed reported that they had minimal or no analytical capabilities. However, four years later, only 8 percent said that they lacked basic analytical capabilities. Similarly, the number of organizations with significant or advanced analytical capabilities doubled from 28 percent to 57 percent over the studied time period ([See Figure 1](#)).

While relatively few companies have adopted analytics as a distinctive capability, many more aspire to do so. The

breadth and consistency of these survey results suggest the wisdom of their aspirations.

Analysis

The most analytically sophisticated companies share four characteristics: an analytical strategy that supports the development of distinctive capabilities, the use of analytics throughout the entire enterprise, commitment from senior management and large-scale ambitions. (See Figure 2.)

Distinctive capability

To contribute to the success of a competitive strategy, analytics must be used to support an organization's distinctive capability. Such a capability can take many forms. At Netflix, for example, it is the ability to predict customer movie preferences.

Enterprise-wide analytics

Analytics act as translators for empirical data—a version of the truth, so to speak. Organizations that apply translators to each of their units or functions will receive multiple versions of the truth. For companies to truly compete analytically, analytics need to cut through the noise, not contribute to it. This is why analytics need to be managed enterprise-wide, with the entire organization working off the same truth.

Senior management commitment

The adoption of an analytical approach to business requires cultural and process changes that will have a major impact on employees. Such changes must be led by senior executives with a passion for analytics and fact-based decision making. Ideally, the primary advocate should be the CEO, and Accenture found several chief executives who were driving the shift to analytics at their firms. These included Harrah's Gary Loveman, Jeff Bezos of Amazon, Rich Fairbank of Capital One, Reed Hastings of Netflix and Barry Beracha, the former CEO of Sara Lee Bakery Group.

Large-scale ambition

A final way to identify an analytical competitor is by the results it aspires to achieve. Analytical competitors often bet their futures on analytics-based strategies. For example, in 1988, Signet Bank took a huge gamble and hired the founders of what became known as Capital One. The leaders of the credit card industry had all passed on the opportunity to adopt Richard Fairbank's and Nigel Morris' information-based strategy for selling credit cards. Signet's ambition, and its ability to recognize a great idea, produced revolutionary results.

Each of the four factors is roughly equivalent in importance. They are also interdependent: If senior executive leadership is committed and has built a strategy around an analytics-led distinctive capability, it's likely that the organization will adopt an enterprise-wide approach and will expect significant results.

Armed with an understanding of the four pillars, organizations can then begin to assess where they stand on the five-stage model of analytical competition. Stage 1 organizations have some desire to become more analytical but thus far lack both the will and skill to do so. Stage 2 organizations take a localized approach to analytics; they must take an enterprise-wide view to move up. The organizations at stage 3 understand the value and promise of analytical competition but must still develop major capabilities. Stage 4 organizations are on the verge of analytical competition, but must overcome a few hurdles to get to stage 4. Stage 5 organizations are full-blown analytical competitors that are characterized by each of the four factors to a high degree.

Accenture has developed a proprietary diagnostic tool, the Analytical Maturity Assessment, which uses the four-pillar and five-stage models to assess the abilities of companies to compete on analytics.

Recommendations

Accenture predicts that more companies will choose to compete on analytics as their distinctive capability in the next five years. Accenture divides this analytical world of the future into three categories: approaches driven by technology, those involving human capabilities, and those involving changes in business strategy.

We believe that the series of technological capabilities that are already used on a small scale within organizations will expand in the future. These capabilities include pervasive business-intelligence software, dedicated business-intelligence appliances, automated decisions, real-time analytics, alerts to gain management attention, visual analytics and increased mining of text. There are also several technology-oriented changes that will most likely become somewhat prevalent over the next few years. These changes include direct-discovery technologies that let managers go directly to the cause of variances in results or performance, and systems for capturing lessons from organizational experiments.

Companies will also want to better understand how key decisions are made within their organizations. They will therefore educate managers on analytical decision-making processes, review their key decisions with regard to the

processes used, and evaluate them not only on the outcome of their decisions, but also on the processes, information and analyses used to make them. As the number of organizations that become aware of the possibilities for analytical competition increases, they will push the boundaries of analytics in their products, services and business models. Accenture expects to see more analytics embedded in or augmenting products as relationships with suppliers and customers increasingly include the provision of analytics.

Accenture believes that companies will begin to take steps to analyze and report intangible assets in the near future. We expect that strategic concerns will also drive organizations to pay substantial attention to new metrics and their interrelationships in analyses and scorecards. Subsequently, we anticipate particularly high levels of activity in human resources and talent management, as these have been relatively unmeasured in the past. Most important, these metrics must be incorporated into business and management decision-making processes.

Analytical competitors will continue to examine their strategies and their business capabilities to understand where they can obtain an analytical edge. They will focus on what makes their organizations distinctive and how analytics can support or drive a distinctive capability. In order to continue refining their analytical capabilities, companies will focus on both their human and technological dimensions.

Perhaps most important, analytical competitors will continue to find ways to outperform their competitors. They'll get the best customers and have the most efficient and effective marketing campaigns and promotions. Their customer service will excel, their supply chains will be ultra-efficient, and they'll have the best people or the best players in the industry. They'll understand what non-financial processes and factors drive their financial performance, and they'll be able to predict and diagnose problems before they get out of hand. They will make a lot of money, win a lot of games, or help to solve the world's most pressing problems. They will continue to lead us into the future.

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