**AI -based Business Analytics:**

Setting the right sales targets for employees is a difficult balancing act, with long-term consequences on growth and morale.

Setting a target too low, making it easily achievable, might cause an employee to not put in the effort. Setting a target too high can be equally problematic. “Then there is no chance of meeting it,” says Doug J. Chung, Associate Professor of Business Administration in the Marketing unit at Harvard Business School. "The salesperson will be discouraged, and just as unlikely to work to their full potential.

In a recent Harvard Business Review article, Chung and several executives from the consulting firm McKinsey & Co explored a new way to thread that needle: using advanced analytics that incorporate artificial intelligence (AI).

“CHUNG HAS SEEN COMPANIES DRAMATICALLY IMPROVE PRODUCTIVITY AFTER ADOPTING ADVANCED ANALYTICS TO GUIDE COMPENSATION.”

In an ideal world, a company would use trial and error to set the best sales targets for employees, experimenting until they hit the right formula. In reality, that’s problematic, says Chung.

Most companies rely on past performance, setting an employee’s goal slightly higher than their sales for the previous year. But that, too, can have its drawbacks.

Artificial intelligence allows companies to use multiple variables to compute the best targets for employees, often in real time. Many companies have started using machine-learning algorithms to construct AI systems.

Consider the company’s broader goal. It’s important that the company first determine its overarching goal, Chung says. “It could be that we need to increase our revenue by 10 percent, even if we incur a loss, or it could be our revenues are fine, but we need to improve our profit,” he says. For example, a US industrial service company was losing 20 percent of its customers every year. Through research, its leaders realized that when customers stayed with the company for six months, their odds of leaving declined. Reducing that churn became part of that company’s overall goal. “They put in a proxy that they wanted to not only acquire customers, but retain them as well.”

Identify and collect as much relevant data as possible. Once executives set an overall goal, they can feed data into an AI system that sets an individual goal for each employee. “The more data that goes in, the more accurate a prediction we can have,” Chung says.

Variables that companies might use include employee data, such as average and past year’s sales; macroeconomic indicators, such as GDP growth and consumer price index; and industry-specific measures, such as growth of competing companies or countries. Firms can also process and use unstructured data, such as text from documents.

The success of using such a system, Chung says, depends on two things: the amount of data a company includes, so as to create the most accurate measures, and management’s confidence.

S.Tejaswi

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