

Leadership Initiatives AI & Emerging Technology Internship



Predictive Analytics, Machine Learning & Artificial Intelligence for Business: Key Concepts and Trends

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November 6, 2024

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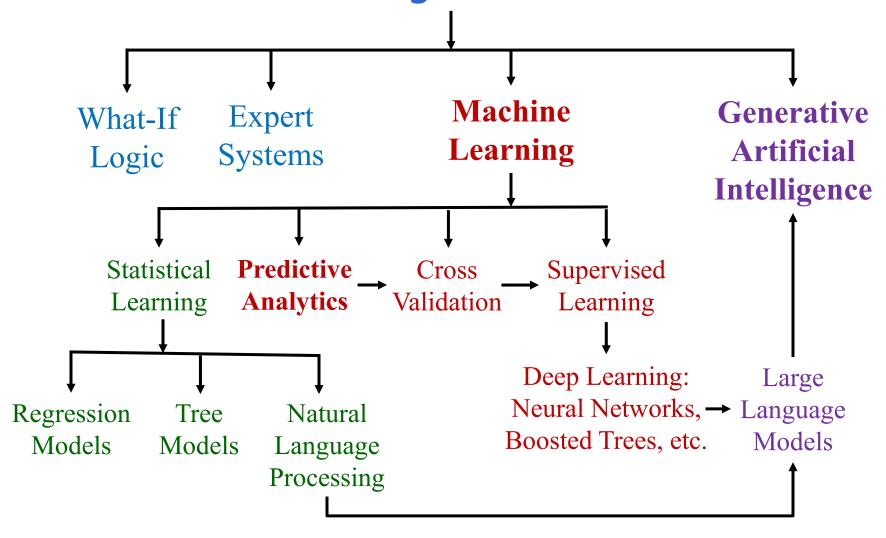
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Prof. Espinosa holds a Ph.D. and Master of Science in Information Systems from the Tepper School of Business at Carnegie Mellon University, a Masters in Business Administration from Texas Tech University; and a Mechanical Engineering degree from Pontificia Universidad Catolica del Peru. He is the architect of Kogod's MS Analytics degree and the undergraduate specialization in Business Analytics. He is also the curriculum architect for the IT&A programs and specializations. He has over 70 published journal articles, conference proceedings, books and book chapters. He has co-authored two research books, one on work coordination across time zones and a 2-volume book on big data and analytics for service delivery. He has also written a book titled "Predictive Analytics and Machine Learning for Managers" with practical applications in R. His research focuses on coordination and performance in technical projects across global boundaries, particularly distance and time zones. More recently he has developed social network and graph analytics methods to represent team knowledge quantitatively and visually. His work has been published in leading scholarly journals, including Management Science, Organization Science, Information Systems Research, the Journal of Management Information Systems, IEEE Transactions on Software Engineering, IEEE Transactions on Engineering Management, Communications of the ACM, Human Factors, Information, Technology and People, and Software Process: Improvement and Practice. His work has also been featured in leading academic conference proceedings. He teaches predictive analytics with machine learning, social and organizational network analytics, R programming, information technology foundations, business process analysis, and programming for business applications. He also has several years of working experience, first as a mechanical design engineer and later as a senior manager, VP, and CFO with international organizations directly supporting, supervising, and formulating policy for finance and global IT, data management and analysis, where he designed and developed a number of software applications to support geographically distributed work in accounting, finance and program monitoring and evaluation.



Predictive Analytics, Machine Learning & Artificial Intelligence for Business









THE WALL STREET JOURNAL.

WSJ.com

September 11, 2015, 9:28 AM ET

Facebook 'Likes' Mean a Computer Knows You Better Than Your Mother

ByGeorgia Wells



A computer needs the data from only 10 Facebook "likes" to beat the accuracy of a person's coworker at judging his or her personality traits, such as extraversion, conscientiousness and neuroticism. The computer needs 70 "likes" to be more accurate than a person's friends. With 250 Facebook data points, the computer can beat someone's spouse.

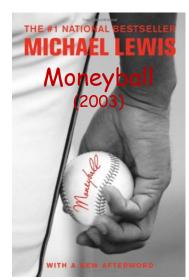




Business Analytics

"It is the scientific process of transforming data into insight for making better decisions" (INFORMS)

Lack analytical talent – by 2018, the US faces a shortage of 140,000 to 190,000 people with deep analytical skills and 1.5 million managers with analytical skills to make decisions with data (McKinsey Global Institute, 2011)



The Age of Analytics McKinsey Global Institute 2016



→ 2м-4

Projected US demand for "business translators" in the 2020 decade

High demand for **business translators** → people who serve as the link between data science talent and business applications and managers, who are business-savvy and can answer business questions.



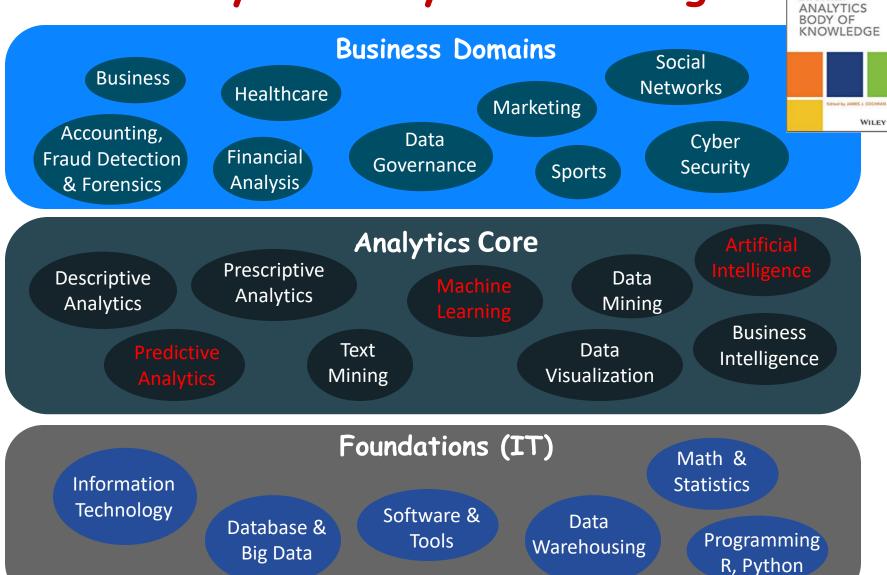
The Analytics Process





informs

Analytics Body of Knowledge









Machine Learning

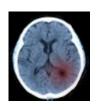
Is method of data analysis that uses algorithms that **learn** from data iteratively allowing computers to find hidden insights without being explicitly programmed (SAS: http://www.sas.com/en_us/insights/analytics/machine-learning.html)

- ➤ Unsupervised learning → data exploration without specific goals (closely associated with descriptive analytics and data mining, e.g., clustering, correlation analysis, histograms)
- ➤ Supervised learning → data analysis with specific goals in mind (closely associated with analytics, e.g., regression) → not much different than predictive modeling













\$200 OFF Miele CM7750 Fully Automatic Espresso Machine



Predictive Model

Without Machine Learning & Cross Validation

Predictors



Outcome

PizzaID	brand	mois	prot	fat	ash	sodium	carb
14001	D	47.17	22.29	21.3	4.08	0.74	5.16
14002	D	49.16	27.99	17.49	3.29	0.39	2.07
14003	Α	30.49	21.28	41.65	4.82	1.64	1.76
14004	В	52.68	14.38	25.72	3.26	0.93	3.96
14005	Н	33.05	7.34	15.78	1.34	0.42	42.49
14006	Н	35.55	7.32	16.4	1.76	0.36	38.97
14007	G	28.68	8.3	16.07	1.41	0.45	45.54



Machine Learning

Cross-Validation -> Split, Train, Test, Re-Sample

Training Subset: Train Model →

PizzaID	brand	mois	prot	fat	ash	sodium	carb
14001	D	47.17	22.29	21.3	4.08	0.74	5.16
14002	D	49.16	27.99	17.49	3.29	0.39	2.07
14003	Α	30.49	21.28	41.65	4.82	1.64	1.76
14004	В	52.68	14.38	25.72	3.26	0.93	3.96

Outcome

cal
302
278
467
305

Testing Subset: Test Model's Accuracy →

14005	Н	33.05	7.34	15.78	1.34	0.42	42.49
14006	Н	35.55	7.32	16.4	1.76	0.36	38.97
14007	G	28.68	8.3	16.07	1.41	0.45	45.54

Outcome

341	290	51
333	362	-29
360	371	-11

Actual Predicted Error Mean Squared Error: 1187.7 RMSE = 34.5

Selected Model

New Data

D	49.16	27.99	17.49	3.29	0.39	2.07
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Uses: test and compare models, tune model parameters, train deep and supervise learning models, etc.

Predict:

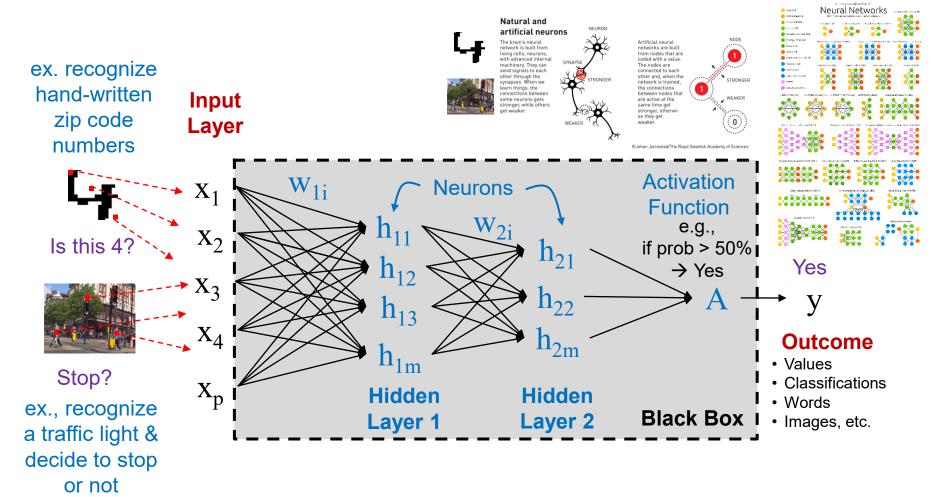
- Values
- Classifications
- Words
- Images, etc.





Machine Learning Models

- Simple learning → simple linear relationships & 1 or 2 layers
- Deep learning → linear or non-linear relationships & multiple layers





Language Model Illustration: The Bible (by IBM)

Tie weight: number of times the pair appeared in the same passage.

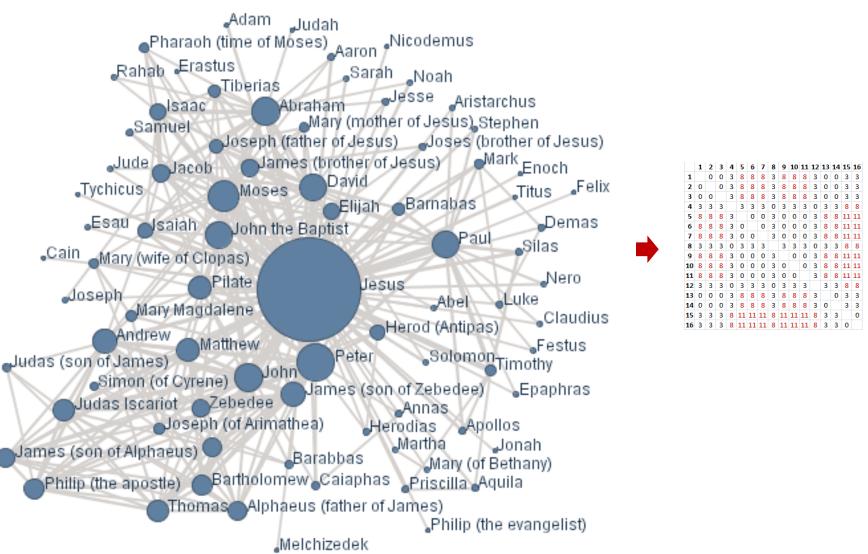
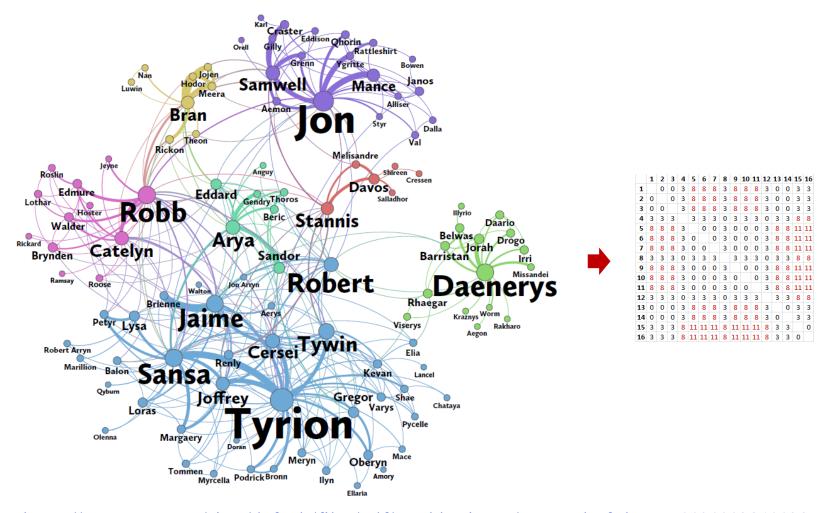




Illustration: Network of Thrones

Tie weighs: number of times the pair appeared within 15 words in the book



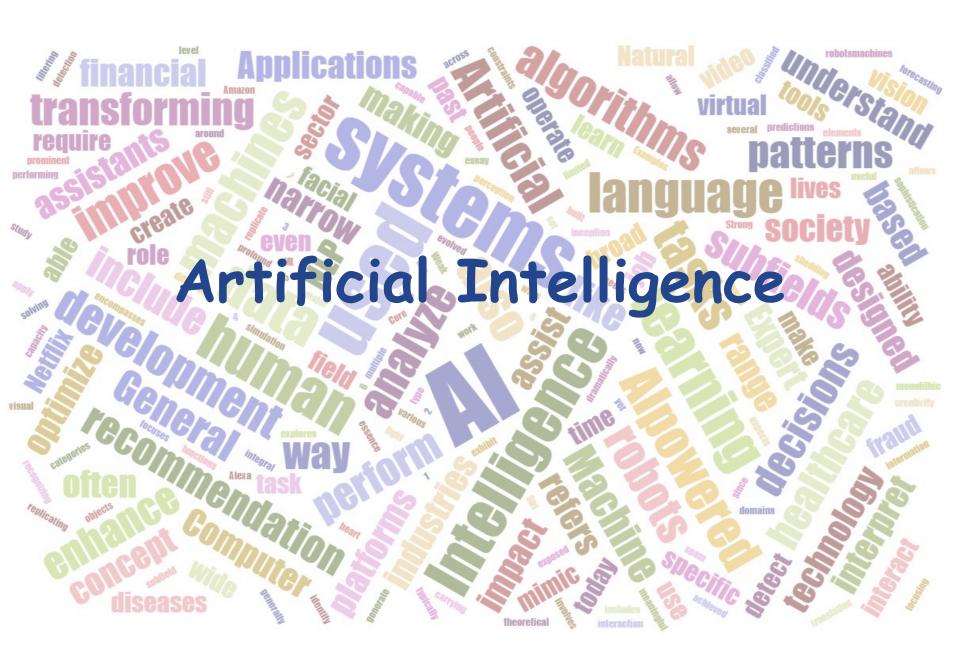
Source: https://www.maa.org/sites/default/files/pdf/Mathhorizons/NetworkofThrones%20%281%29.pdf



Current Trends in Machine Learning

- Large Language Models: generate human-like text, perform complex reasoning tasks, and even write code.
- Generative AI: respond to prompts and generate responses as text, images, sound, video, etc.
- AutoML: Automate model selection, feature engineering, and parameter tuning.
- Foundation Models: models like GPT that can be adapted to a wide range of applications.
- Explainability for Complex Models: Tools and methods are being developed to make models more transparent and to explain their predictions to non-experts.
- Multimodal Models: Can process and combine data from different sources (text, image, video, audio, etc.)





Artificial Intelligence (AI)

- Al will not replace jobs, but people who know Al will !!
- Al is an old discipline started in 1956 (Darmouth Prof. John McCarthy)
- Defined as: "the science and engineering of making computers behave emulating human intelligence" → learning, reasoning and self-correction.
 - Gartner \rightarrow AI is the application of advanced analysis, logic-based methods and machine learning (ML) to interpret events and automate decisions.
- There are many branches of AI, such as:
 - ✓ Logic-Based based on logical rules
 - ✓ Expert Systems Al "if-then" rules are elicited from experts
 - ✓ **Machine Learning (ML)** systems that learn mostly from historical data, without explicit programming
 - ✓ Generative Al (GAI) "deep learning models that can generate high-quality text, images and other content based on data they were trained on" (IBM) → generate content from user prompts.



Prompt Engineering

Is the process of designing, refining, and optimizing prompts when interacting with AI models like GPT (Generative Pre-trained Transformer). Key aspects of Prompt Engineering include:

- Clarity and Specificity → ensure the model understands what's asked
- Contextualization → provide general context to get accurate response
- Instructions for Tasks → state what's expected (e.g., summary)
- Iterative Testing -> try different prompts and check output consistency

Prompt:

"I am a machine learning professor at a business school. How do I explain what prompt engineering is to an audience of accountants?"

ChatGPT Response:

"To explain prompt engineering to an audience of accountants, you can draw parallels between how accountants optimize financial processes and how prompt engineers optimize AI outputs. Here's an example: Prompt engineering is the process of crafting precise and specific instructions for an AI model to ensure it provides accurate and relevant results, much like how you would design a financial query to get the correct data from accounting software. In the same way that vague or poorly structured inputs can lead to incorrect financial reports, unclear prompts can lead to less useful AI responses. By refining these prompts, we help the AI deliver exactly what we need, whether it's a financial summary, analysis, or any other task."



Artificial Intelligence (AI) & Machine Learning Applications by Industry

- Healthcare: diagnostics, personalized treatment, robotic surgery, Al-driven diagnostic tools, drug discovery, predictive analytics for patient management.
- Finance & Accounting: risk management, fraud detection, accounting forensics, algorithmic trading, personalized banking services, and Al-driven compliance.
- Retail: personalized marketing, inventory management, sales forecasting, e-commerce, chatbots, recommendation engines.
- Manufacturing: production line optimization, predictive maintenance, quality control, automation.
- Transportation: self-driving cars, route optimization, logistics, traffic management, autonomous systems.
- Energy: energy use optimization, predicting equipment failure, managing grids, efficient energy consumption.
- Advertising & Media: content creation, targeted advertising, media analytics

A Few Useful General AI Tools

- GhatGPT (https://chatgpt.com/): conversational Generative Pre-Trained Transformer AI model. GPT-3.5 is free, ChatGPT Plus is \$20/month.
- Dall-E (https://openai.com/index/dall-e-3/): generates graphs in ChatGPT
- MidJourney (https://www.midjourney.com/home): Generates images from text.
- Copilot (https://www.microsoft.com/en-us/microsoft-copilot/personal-ai-assistant): Microsoft AI tool with free and paid versions.
- Perplexity (https://www.perplexity.ai/): Conversational AI, similar to ChatGPT, but very accurate and yields useful citations
- Pearl.ai, Al Code Editor, Claude, Cursor: generative Al tools with advanced features for software programming.
- **Notebook LM** (https://notebooklm.google.com/): By Google, for generative AI on local documents like Word, Powerpoint and PDF.
- Poe (https://poe.com/): Great to run generative AI over local documents like Word, PowerPoint, and PDF files and render useful summaries.
 See my Chatbot on Predictive Analytics: https://poe.com/ITEC-621
- **DeepL Translate** (https://www.deepl.com/en/translator): for accurate translation between multiple languages
- Grammarly (https://www.grammarly.com/): Excellent Al writing tool



Popular Uses of Generative AI

- Research → Search papers, summarize articles, find citations, etc.
- Writing → Write first drafts, edit writing, change styles (e.g., academic)
- Local Knowledge Base → Chat and generate from your own materials
- Local Coach/Tutor → Support learning and content creation
- Advanced Searches → Generate content, not just website links
- Create Presentations → Generate slides and graphics
- Generate Creative Content → Images, Music, Video, etc.
- Software Programming → Learn how to code, generate code, etc.
- Language Translation → Text or audio from/to any language
- Power Computer User → Tools (ex., Copilot for Excel, PowerPoint)
- Voice Applications → Voice assistants, transcriptions
- Face Recognition → Tagging photos, device security, etc.



Current Trends in Artificial Intelligence

- Generative AI (GAI): ChatGPT and other tools that respond to a prompt and generate content based on it. The content can be text, images, videos, software code, etc. resulting in innovation and more efficient work processes.
- Augmented Intelligence: copilot decision makers, doctors, manufacturers, artists, etc.
- Al in Predictive Analytics: fraud detection, cybersecurity analysis, healthcare predictions, trend and financial forecasting trends, decision making, resource allocation and optimization.
- Al in Personalization and Marketing: personalize customers' experience, product and service recommendation engines.
- Responsible Al and Ethics: creating transparent, explainable and unbiased Al systems.



Business Analytics @ Kogod

MS Analytics (being re-branded + AI)

http://fs2.american.edu/alberto/www/analytics/

Curriculum

http://fs2.american.edu/alberto/www/analytics/msanalytics.pdf

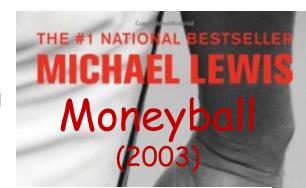


Backup Slides



Moneyball book author: Michael Lewis

Billy Beane (Oakland A's) incorporated ("sabermetrics") analytics and statistics, reaching record profits in baseball





William Lamar Beane III (born March 29, 1962) is a former American professional baseball player and current front office executive. He is the executive vice president of baseball operations and minority owner of the Oakland Athletics of Major League Baseball A first-round pick in the MLB draft by the Mets, Beane failed to meet the expectations of scouts, who projected him as a star. In his front-office career, Beane has applied statistical analysis (known as sabermetrics) to baseball, which has led teams to reconsider how they evaluate players. He is the subject of Michael Lewis's 2003 book on baseball economics, *Moneyball*, which was made into a 2011 film starring Brad Pitt as Beane.

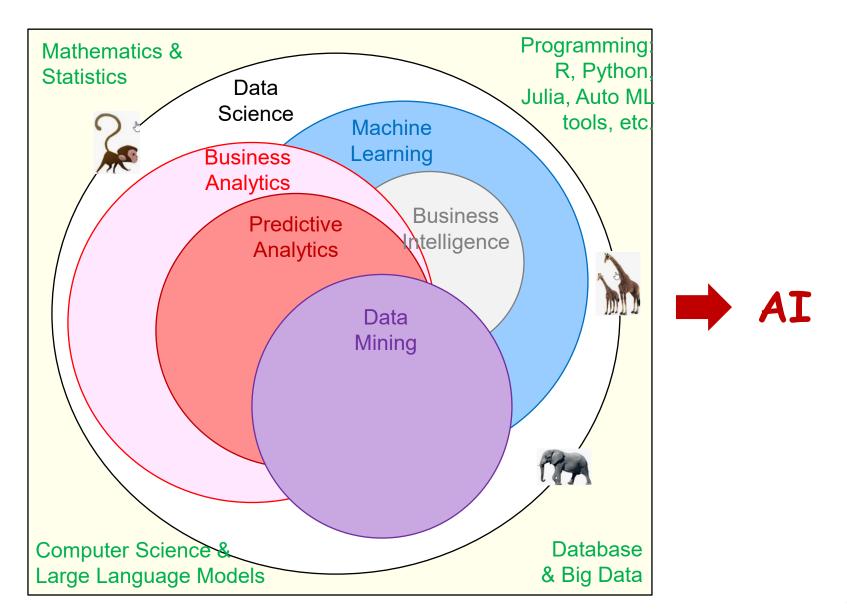
Bill James

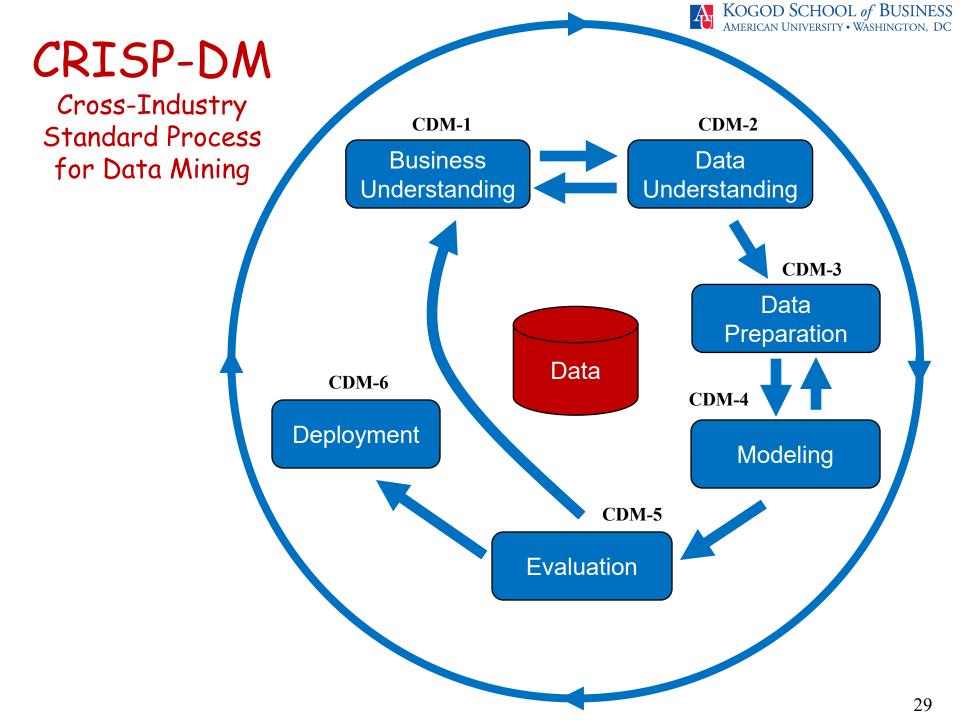


In 2006, *Time* named him in the Time 100 as one of the most influential people in the world.^[3] He is a Senior Advisor on Baseball Operations for the Boston Red Sox. In 2010, Bill James was inducted into the Irish American Baseball Hall of Fame.^[4] His approach, which he termed sabermetrics in reference to the Society for American Baseball Research (SABR),^[1] scientifically analyzes and studies baseball, often through the use of statistical data, in an attempt to determine why teams win and lose.



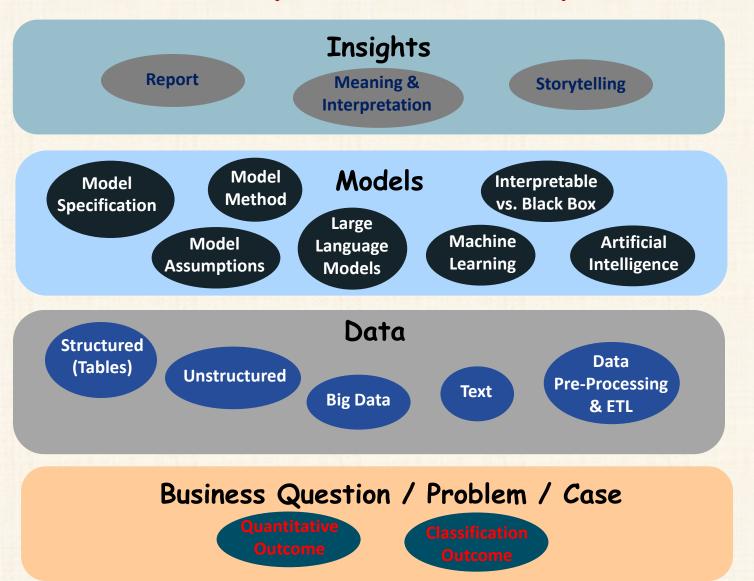
AI & Data Science Zoo





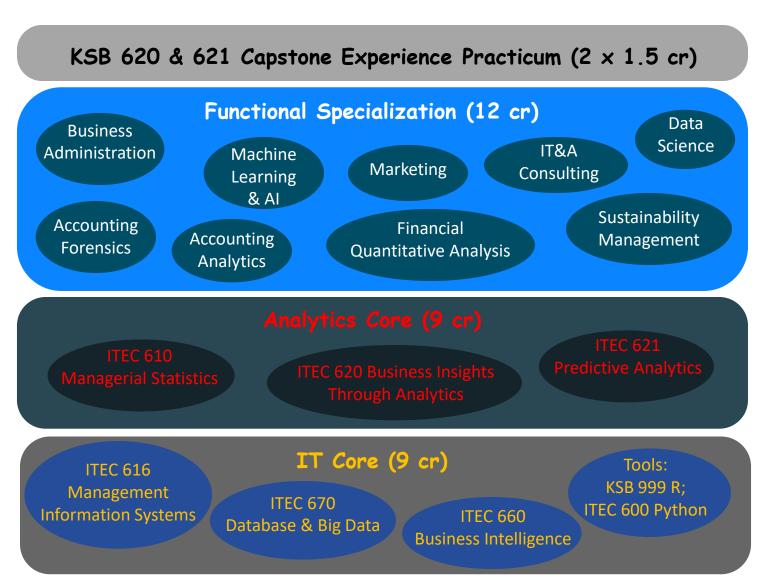


Main Components of Analytics





Kogod MS Analytics





Step 1 – Business Understanding (CDM - 1)

- (1) Formulate Business **Problem** and **Case**
- (2) Translate into **Analytics Question**: outcome + predictors





Step 2 – Data Work (CDM - 2, 3)

Identify & Gather data: structured, unstructured, visual, etc.

Pre-process data: cleanse, prepare, transform, format, etc.

Descriptive Analytics: e.g., correlation, descriptive stats, etc.

Step 3 – Modeling Method (CDM - 4)



Predictive Analytics → predict outcomes

Goals: Interpretability vs. Accuracy

Model Type: Explainable (e.g., regression) vs.

Black Box (e.g., neural network)

Prediction Type: Quantitative vs. Classification Outcome

Model Evaluation: Model assumptions, fit statistics,

cross validation testing

Model Specification: Predictors or features? Linear, non-linear, log?



Step 4 – Analysis (CDM - 5)

Interpret effects, test hypotheses and/or make predictions



Step 5 – Reporting (CDM - 6)

Written, interactive, visual → "storytelling"



Model Explainability

Interpretable Models

Sales ∼ Ad Spending + Store Size

Explain how the model works and what the results mean

- → e.g., OLS regression, logistic regression, decision trees
 - good for interpretability and inference

Black Box Models (non-interpretable)

The complexities of the internal model are difficult to explain

- → e.g., neural networks, deep learning
 - → good for predictive accuracy



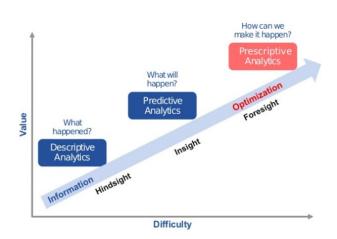
Stop?



Analytics Types

- **Descriptive:** getting meaning from the data e.g., descriptive statistics, data mining, cluster analysis, market basket analysis, etc.
- Predictive: using some data to predict outcomes
 (quantitative or classification) e.g., projecting
 sales/profits, decease survival prognosis, probability of
 losing/gaining a client, probability of a security breach, etc.
- Prescriptive: decision models that use predictive models to make/automate recommendations

 e.g., optimal pricing, where to drill for oil, selecting job applicants, market products based on purchase history, etc.

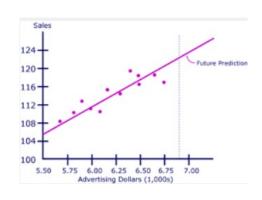


Derived from: Gartner (December 2012)

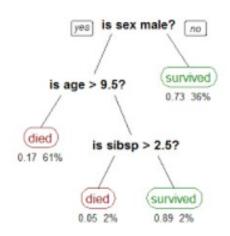


Predictive Analytics Question > Outcome > What are you predicting?

Values: → predict quantitative outcomes –
e.g., how much does annual income
increase with each year of additional
university education; how much sales
increase for each additional dollar of
advertising expenditures?



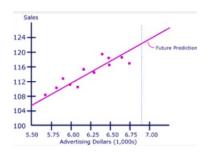
 Classification: predict categorical outcomes or the likelihood that an observation will fall in a particular class – e.g., yes/no, positive/negative illness diagnosis, loan default/no-default, cyber security breach/no-breach, etc.

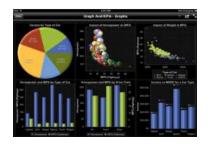


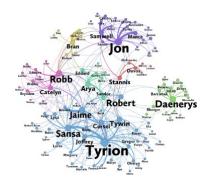


Analytics Approaches

- Quantitative: statistical, association, correlation, regression, machine learning, etc. models based on how variables co-vary with the outcome – e.g., how much does annual income increase with each year of additional university education?
- Visual: e.g., Tableau, R, Python
- Network Analytics: relationships (e.g., friendship, communication, co-memberships, etc.) →
 social, organizational, professional networks, etc.
- Unstructured Data Analysis: text mining, natural language processing, social media, etc.
- Large Language Models (LLMs): predict the next word based on the current set of words in the text → generate text responses, e.g., ChatGPT







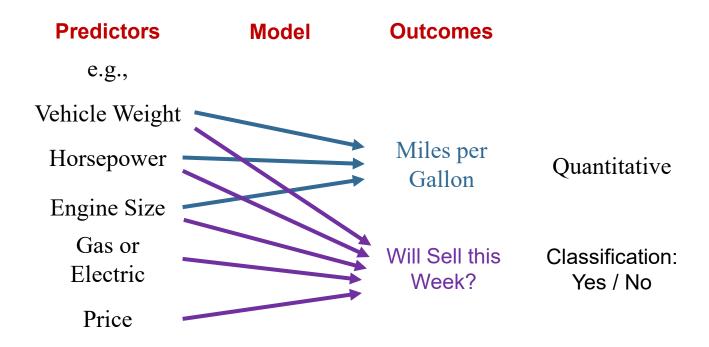




Statistical Models

- Regression

 predicting by statistical association using variables in the data to predict quantitative outcomes or classifications.
- Tree → partitioning the data at specific values of variables to differentiate quantitative outcomes or classifications





- Ordinary Least Squares
- Weighted Least Squares
- Generalized Linear Model
- Ridge Regression
- LASSO Regression
- Principal Components Regression
- Partial Least Squares
- Non-Linear Models
- Piecewise Linear Regression
- Step Regression
- Linear, Cubic, Smoothing Splines
- Neural Networks
- Etc.

ics Modeling Options

Modeling Method

Structured

analysis, correlation, may ysis, sample statistics, /

• Regression Trees

- Classification Trees
- Bootstrap Aggregation
- Random Forest
- Boosting Trees
- Etc.

Wisual, Text, uctured, etc.

charts, network rams, natural ige processing, ng dendograms, etc.

Predictive	Association	Decision Tree	Charts	
Quantitative Value	Regression	Regression Trees	Regression plots, scatter plots, Tableau diagrams, trend charts, etc.	
Classification	Logistic Regression; Other Categorical Regression Models	Binomial Logistic RegMultinomial Logistic F	Regression	
Prescriptive	Operations research optimization, line	Noural Naturariza		



ML: Key Concepts

- Again, ML is about maximizing predictive accuracy →
 - 1. Split the data set into train and test sub-samples
 - 2. Train subset → part of the data selected randomly to fit models and estimate parameters (e.g., regression coefficients)
 - 3. Test subset → part of the data, not in the train subset, used to evaluate the trained models
 - **4.** Cross-Validation (CV) → Evaluate the trained model's predictive accuracy with the test subset, → CV Test Error
 - **5.** Re-Sample and repeat 1-5 many times

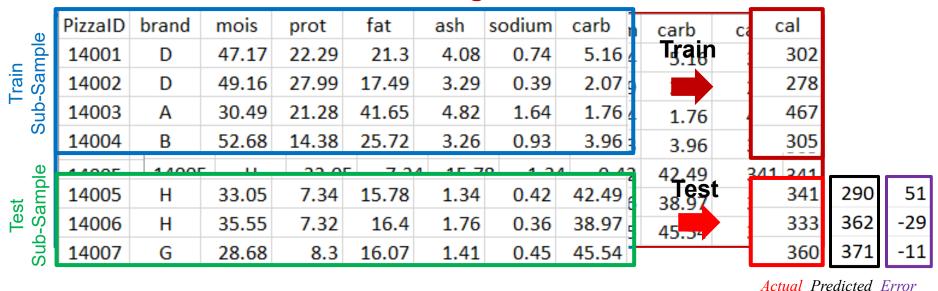


Machine Learning

Cross-Validation → Split, Train, Test, Re-Sample

Productive Meaderinget

Outcome



Mean Squared Error: 1187.7

Mean Error = 34.5

Select Model

New Data D 49.16 27.99 17.49 3.29 0.39 2.07

Uses: test and compare models, tune model parameters, train deep and supervise learning models, etc.



Predict:

- Values
- Classifications
- Words
- Images, etc.



Illustration: Food Ingredient Network

