The Chief Analytics Officer's Vision Sets the Narrative for the Business Analytics Strategy

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Summary

CAOs are responsible for creating a business analytics strategy to transform digital business. Their vision describes more than a future state — it establishes the narrative for understanding and validating the required investments and process changes to realize the business analytics strategy.

Overview

Key Challenges

* The challenge for newly minted chief analytics officers (CAOs) who are charged with crafting a business analytics strategy is that the new strategy must be grafted onto existing processes, policies, organizational structures, infrastructure, siloed applications and data sources, and fragmented information management and governance "programs."
* CAOs need to create a business analytics vision that can be clearly articulated to the enterprise.
* CAOs need to construct a vision narrative that will "connect the dots" for the enterprise on why business analytics is needed, what is needed, where it is needed, who will use it, where it will be deployed, and how the business analytics investments are justified in the context of enterprise values and financial objectives.

Recommendations

* Create a business analytics vision that aligns with organizational belief systems around the value of information and that is directly linked to the financial objectives of the enterprise.
* Create a narrative that links financial objectives and modes of operation with information and analytics initiatives and investments.
* Create a business analytics lingua franca (that is, a common language that is adopted by speakers from every department and discipline for the purpose of understanding and discussing analytics).
* Position the business analytics vision and the lingua franca as the foundation for creating a business analytics strategy.
* Use the Gartner business analytics strategy compass as a guide for transforming the business analytics vision into a strategy.

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Introduction

Disruptive competition. Big data. The Internet of Things. A 360-degree single view of the customer. Customer data hacks. Which one of these existential crises caused the board of directors or the CEO to realize that a CAO was needed to ensure that your enterprise was not left behind in the new world of digital, algorithmic business?

The challenge for newly minted CAOs who are charged with crafting a business analytics strategy is that it must be grafted onto existing processes, policies, organizational structures, infrastructure, siloed applications and data sources, and fragmented information management and governance "programs." The board or CEO call to action is great top-level support, but how does the new CAO make it real? The first step is to build a vision that is future-oriented, time-bounded, aspirational and sticky in terms of how the vision becomes integrated into corporate culture and drives successful business outcomes.

One approach for developing a successful business intelligence and analytics (BI&A) vision is to align the organizational belief systems around the value of information with the financial objectives of the enterprise for the purpose of creating a lingua franca or common language. This lingua franca can then be used for articulating a narrative of how the business analytics strategy and investments will benefit the business. This narrative is crucial for providing clarity for investment justification and change management.

Analysis

The CAO should view the business analytics visioning process as a way to set and manage the narrative that the enterprise tells itself about what it's trying to achieve. Many business analytics professionals are frustrated by their business colleagues' lack of understanding around the use and value of information, as well as its relationship to effective business outcomes. Likewise, people on the business side of an enterprise can be frustrated by the IT department's lack of understanding of business realities. The CAO needs to create a narrative that links financial objectives and modes of operation with information and analytics initiatives and investments. The narrative needs not only to justify investment, but also to create the dynamic energy required to change processes and policies; in short, the CAO's narrative needs to replace inertia with a vision to transform the business via business analytics.

CAOs need to create a business analytics vision that can be clearly articulated to the enterprise. The business analytics vision is the first step on the way to creating a business analytics strategy. For the business analytics vision to have meaning and power as a guidepost, it must be linked to the enterprise value system for information and the corporate financial objectives.

This research:

* Analyzes value systems for the use of information to achieve business objectives
* Uses a method for linking business analytics vision and strategy to financial objectives
* Provides a framework for building the business analytics vision narrative that will frame the business analytics strategy

Vision and Values

CAOs need to have a solid understanding of how the enterprise views information and its value as a tool for operating and managing the business. CAOs cannot force a new value system on the enterprise. They must use the underlying value system as a starting point for building consensus around how management and operations can be improved by an acceleration and advancement in the use of business analytics.

Value Disciplines and the Value of Information and Business Analytics

In ["A Good Information Management Strategy Starts With Vision and Values,"](https://www.gartner.com/doc/code/252013?ref=ddisp)Gartner lays out a framework for understanding how enterprises evaluate their competitive advantage or added value. The framework is based on Treacy and Wiersema's value disciplines, [1](https://www.gartner.com/doc/3175139?srcId=1-6470978268#dv_1_m_treacy)which list three ways that businesses compete; Gartner has added risk management as a fourth value discipline:

* Operational excellence brings value through offering the best price as well as through a lean and mean process. Organizations with an operational excellence strategy outsmart their competitors by having a superior grip on their business processes.
* Product innovation companies seek value in a different way by creating the market's most desired products, often at a premium price. These products may be technologically the most advanced or the most fashionable, or the business model through which they are sold is particularly innovative.
* Customer intimacy companies may not have the best, nor the cheapest, products or services, but they have a superior knowledge about their customer base, and they aim to be there with a well-fitted offer the moment it is needed.
* Enterprises should treat risk management as a discipline. There is value in and of itself in being able to mitigate risks in business.

All of these value disciplines need to use information and business analytics in their execution and management. The choices that enterprises make on the degree and type of business analytics depend on a number of factors, including competitive situation and availability of data, but most importantly, they depend on the way that management thinks about information and business analytics.

At this point in the visioning exercise, the CAO should develop a thorough understanding of the enterprise's conception of its competitive value and begin to build an understanding of how the enterprise views information and business analytics in specific functional areas and decision-making processes. The next step in building the business analytics vision narrative is to create the narrative's foundation by linking the narrative to the articulated financial objectives of the enterprise.

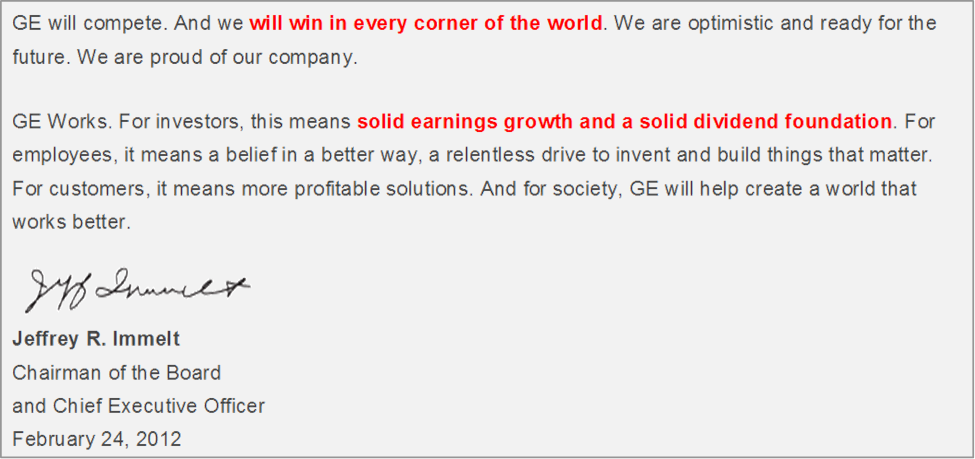
The Four Financial Objectives Approach for Linking the Business Analytics Vision to Business Outcomes

Almost invariably, corporate CEOs and nonprofit/government leaders focus primarily on four high-level financial objectives: (1) revenue/funding, (2) market share/constituent mind share and reputation, (3) profitability/break-even budgeting and (4) working capital/cash management.

It is not feasible to optimize (getting the maximum result for) all four of these objectives at the same time because optimizing one relates to suboptimizing another. For example, if a CEO wants to "buy" market share by lowering the price below the maximum price that could be charged in the market, then revenue, profitability or both will be suboptimized. At most, a CEO or nonprofit/government leader can optimize two business objectives at once.

In publicly traded companies, the CEO's financial objectives are usually articulated clearly in the letter to shareholders in the annual report. The language may be as straightforward as using words like "revenue," "market share," "profits" and "working capital." Other times, it's relatively easy to interpret. See Figure 1 for an example of this from the GE 2011 Annual Report.

**Figure 1.**Financial Objectives Example



Source: Adapted from GE 2011 Annual Report

Winning "in every corner of the world" can be interpreted as a focus on market share, while "solid earnings growth and a solid dividend foundation" clearly speaks to profitability for shareholders. Top-line revenue is important to GE, but Jeffrey Immelt did not set expectations around optimizing it. Likewise, GE manages its working capital carefully, but this strategy is likely to "burn cash" as part of the effort to buy market share profitably.

This type of analysis leads to six possible financial objectives pairs. Table 1 shows the six possible pairs and examples of companies that are following each pair, based on a reading of their 2014 annual reports (boldfacing added for emphasis).

| **Table 1.**  Financial Objectives Pair Examples | | |
| --- | --- | --- |
| Financial Objectives Pair | Company | 2014 Annual Report Statement |
| Revenue/profit margin | Ford Motor Co. | Ford Motor Company posted solid results in a challenging year in 2014 while **building a strong foundation for future growth and profitability.** |
| Market share/profit margin | Microsoft | … making us an **undisputed leader**; … **taking share from competitors**; and we expanded our **data center footprint**…. **We also returned more than $15.7 billion in cash to our shareholders**… |
| Working capital/profit margin | Wal-Mart Stores | Walmart is well-positioned … due to our **unique assets**. And, we're doing more to **leverage these physical assets**.… **Walmart U.S. delivered solid profit growth.**We took … steps to … focus investments **on the most profitable opportunities to position the business for future growth.** |
| Revenue/market share | Verizon | From **a strategic perspective**, our most notable accomplishment of 2014 was … **full ownership**of Verizon Wireless. **We generated $87.6 billion in wireless revenues and added 5.5 million retail connections. We ended the year with 108.2 million retail connections, a year-over-year increase of 5.3%.** |
| Revenue/working capital | Amazon | To our shareowners: A dreamy business offering has at least four characteristics. Customers love it, it can grow to **very large size**, it has**strong returns on capital**, and it's durable in time — with the potential to endure for decades. |
| Working capital/market share | De Beers | This philosophy, when combined with **our position as the largest diamond company in the world**.… Together, these are the **largest diamond production projects**in the world. |

Source: Gartner (December 2015)

The financial objectives pairs can reveal a great deal about the enterprise's implied or inferred competitive strategy. In Table 2, each financial objectives pair is explained in terms of the implied business strategy and is analyzed by the types of trade-offs that the enterprise is implicitly and explicitly willing to make to achieve its goals.

| **Table 2.**  Financial Objectives Pairs and Business Strategy | | |
| --- | --- | --- |
| Financial Objectives Pair | Business Strategy | Trade-offs |
| Revenue/profit margin | Market leadership defined by profitable revenue growth | Profitable market share, not market share at any cost; cash reserves adequate |
| Revenue/market share | Market leadership defined by revenue and market share | Market share paid for with lower prices, yielding lower profit margin; cash reserves adequate |
| Revenue/working capital | Market leadership defined by revenue and competition based on supply of noncash working capital (e.g., inventory) | Revenue growth more important than market share and paid for by lower profit margins; return on capital is critical |
| Profit margin/market share | Market leadership defined by market share and shareholders requiring the best possible return on their investment (e.g., profits) | Profitable revenue more important than absolute revenue; cash reserves adequate |
| Profit margin/working capital | Market leadership defined by return on investment and return on capital | Profitable revenue more important than absolute revenue; profitable market share more important than absolute market share |
| Market share/working capital | Market leadership defined as market share and vast capital access | Market share paid for with lower prices, yielding lower revenue and profit margin |

Source: Gartner (December 2015)

The Vision Setting the Narrative

With the analysis of the four financial objectives now linked to the organizational vision, the CAO is ready to start constructing the vision narrative that will "connect the dots" for the enterprise on why business analytics is needed, what is needed, where it is needed, who will use it, where it will be deployed, and how the business analytics investments are justified in the context of enterprise values and financial objectives.

Competitive Values and Financial Objectives Create the Baseline Narrative

The CAO's baseline narrative is derived by mapping the competitive values against the financial objectives to generate the business activities, programs, trade policies and other initiatives that will require the use of information and business analytics to execute. Table 3 gives an example of how business analytics can be used to achieve the goals of each competitive value based on the financial objective strategy being pursued. The language in each box (customized for each enterprise) can literally be used as a high-level vision statement for the business analytics programs.

For instance, if a company is pursuing revenue and market share as its financial objectives and has a specific focus on operational excellence, then the CAO's vision statement could be: "Our business analytics strategy will focus on new business development and strategic customer acquisition processes and the performance metrics we use to measure our success."

| **Table 3.**  Finding Business Analytics Opportunities Through Competitive Values and Financial Objectives | | | | |
| --- | --- | --- | --- | --- |
| Use Analytics for Creating: | Operational Excellence | Product Innovation | Customer Intimacy | Risk Management |
|  | | | | |
| **Revenue/market share** | New business development and strategic customer acquisition processes and performance metrics | New rapid product development processes, and elasticity-based pricing schemes | Upsell/cross-sell opportunities, and automated customer offerings based on analysis of actual customer behavior | Heat maps to identify competition for new business and potential barriers to available market share expansion |
| **Revenue/working capital** | New business development and asset utilization, and return on asset processes and performance metrics | New rapid product development processes, and capital-efficient products and services | Upsell/cross-sell opportunities, and customer interaction intensity based on actual and predicted customer profitability | Heat maps to identify competition for new business, and threat assessments against capital loss |
| **Revenue/profit margin** | New business development and asset utilization, and profitability metrics | New rapid product development processes, and high-profit-margin products and services | Upsell/cross-sell opportunities, and customer interaction intensity based on actual and predicted customer profitability | Heat maps to identify competition for new business, and threat assessments against profit-eroding situations |
| **Profit margin/market share** | Targeted cost cutting, and customer acquisition processes and performance metrics | New high-profit-margin product development processes, and elasticity-based pricing schemes | Customer intimacy programs that optimize profitability, not satisfaction, and automated customer offerings based on analysis of actual customer behavior | Heat maps to identify potential cost overruns and potential barriers to available market share expansion |
| **Profit margin/working capital** | Targeted cost cutting and asset utilization, and return on asset processes and performance metrics | New high-profit-margin product development processes, and capital-efficient products and services | Customer intimacy programs that optimize profitability, not satisfaction, and customer interaction intensity based on actual and predicted customer profitability | Heat maps to identify potential cost overruns, and threat assessments against capital loss |
| **Market share/working capital** | Strategic customer acquisition and asset utilization, and return on asset processes and performance metrics | New elasticity-based pricing schemes, and capital-efficient products and services | Automated customer offerings based on analysis of actual customer behavior, and customer interaction intensity based on actual and predicted customer profitability | Heat maps to identify potential barriers to available market share expansion, and threat assessments against capital loss |

Source: Gartner (December 2015)

The business analytics vision narrative that is built from this framework also needs to take into account the enterprise values around information and business analytics. ["A Good Information Management Strategy Starts With Vision and Values"](https://www.gartner.com/doc/code/252013?ref=ddisp)directly addresses the issue of how management values information and business analytics by providing a three-level characterization of the prevailing mindsets around information and its potential use in business analytics:

* **Information as a utility:**Information should be available to as many people as possible, and it should ideally cover their information needs as much as possible — whatever those needs may be, and whatever value the information may bring those people.
* **Information as an enabler:**Information should be tailored toward a certain business goal, and requirements are derived from that business goal. In other words, information exists only for the purpose of that particular business goal because the goal determines the value of the information.
* **Information as a driver:**Although, in regard to the previous two categories, enterprises may not understand the value of information until they know how to use it, for this level, information is considered to have value in and of itself. Having the right insight into the information that is available to you can lead to worthwhile and new business goals.

These different perceptions of business, information and business analytics value may contradict each other. However, they are not "wrong or right" — merely perspectives based on the belief that information needs to be applied in a way that best allows people success in their roles. Coexistence of multiple beliefs within a single organization not only is likely, but also is preferable. The full use of information requires all three belief systems. As the CAO creates the narrative, it must resonate with the enterprise based on where it is now and what achieving the next step will look like. Over time, the narrative needs to be updated as the enterprise progresses through visioning to strategy and then execution.

The CAO Should Create a Lingua Franca for the Business Analytics Vision

The vision statement derived from competitive values and financial objectives is a start. Building a complete vision that becomes the foundation of a business analytics strategy requires the CAO to create a new set of concepts, terms and vocabulary that the enterprise can use to talk to itself about its strategic business analytics journey. The CAO needs to create and promote a business analytics lingua franca (a common language that is adopted by speakers from every department and discipline for the purpose of understanding and discussing business analytics). A common prescription is to create an "analytics culture" as a way to engage the enterprise in business analytics initiatives. The business analytics lingua franca is the foundational element of the business analytics culture.

There are four areas that the CAO needs to focus on in creating the business analytics lingua franca:

1. Business analytics use cases
2. Baseline maturity-level setting
3. The principles of scalability, extensibility and flexibility
4. The Gartner business analytics strategy compass

Business Analytics Use Cases

Each enterprise will have pre-existing names for certain business applications, business processes, and current systems and reports. Codifying and identifying gaps in business analytics use cases are important goals of the lingua franca. There can be confusion between what a process is and what an application is. Separating process from business analytics can be critical, especially if the modes and measures of performance management will be changing. The lingua franca can help define the different types of business analytics that will be implemented and can clarify how changes in operations will affect processes and the people involved in executing them. The business analytics use cases can be categorized as follows:

* Planning (forecasting, operational budgeting, capital investment and so forth)
* Managing in-process transactions (pending orders, inventory movement, workforce management, fulfillment and so forth)
* Reporting for accounting, information disclosure, legal compliance, paying taxes and so forth
* Decision making (strategic, tactical and operational)
* Risk management (an ongoing process to identify, evaluate, and mitigate existing and new risk)

This list of business analytics use cases can be modified and described in enterprise-specific ways. The real challenge is to get the people involved in these use cases to realize that their activity has a business analytics aspect to it (that is, they are creating, accessing, storing, manipulating, transforming and destroying data in the execution of their job responsibilities). The use-case concept allows people to identify and relate their activities to the business analytics initiatives in a way that allows them to feel ownership of the program.

Baseline Maturity-Level Setting

Once people begin to realize that they are part of a group or category, it is human nature to benchmark the starting point so progress can be tracked. Humans are competitive by nature and can be engaged in cooperative and productive competition to reach the next level through incentives, gamification and other techniques that harness and exploit human striving to achieve.

There are a number of ways to level-set the organization's sense of its current maturity. Gartner has published ["ITScore for Business Intelligence and Performance Management,"](https://www.gartner.com/doc/code/205073?ref=ddisp)which presents five levels of maturity. Alternatively, Table 4 shows a simplified three-level benchmark for describing current and future states.

| **Table 4.**  Business Analytics Baseline Maturity Benchmarking | | | | | |
| --- | --- | --- | --- | --- | --- |
| Level | Description | Strategy | Percent of Enterprises | Percent of Processes | Data Characteristics |
| Foundational | Accounting, regulatory and compliance | Do enough to stay out of legal trouble and to stay in business | 100% | 100% | Relatively low volume of well-known transactional data used for basic accounting and compliance reporting, with limited business operations performance management analytics; focused on descriptive and diagnostic analytics |
| Advanced | Analytics for decision making | Enhance specific business processes for competitive differentiation | 75% | 50% | Greater volume of well-known transactional data, plus moderate volumes of newly generated, nontraditional internal or external domain-specific data for enhanced performance management and decision-making analytics; focused on descriptive, diagnostic and siloed predictive analytics |
| Strategic | Analytics as a business model | Comprehensive approach to using data and analytics for innovation and sustainable advantage | 25% | 5% | Relatively large transactional data, plus aggressive acquisition of internally and externally generated "big data" scale volumes for embedding automated performance management and decision making into customer- and supplier-facing applications; focused on enterprise-scale descriptive, diagnostic, predictive and prescriptive analytic processes |

Source: Gartner (December 2015)

Table 4 lays out three levels of business analytics maturity, their description, the implied strategy, a hypothesized estimate of developed-economy companies' current state, and observations about the use of data at each level. The naming conventions and gradations for each level are not critical in the vision-to-strategy-transformation phase. What really matters is the recognition that there is a current state that can be characterized and evaluated. Figure 2 lays out the challenge: "OK, we are in business and not going to jail from our operations — are we satisfied with that, or can we do better?" The major focus of developing a business analytics strategy will be to apply the business analytics vision narrative to the current state for the purpose of moving the enterprise to the next level of maturity.

Principles of Scalability, Extensibility and Flexibility

The lingua franca needs to be conceptually rich enough to discuss the measurement and progress tracking of the business analytics strategy and initiatives beyond cost cutting, revenue generation, cash conservation and profits. This is because a long-term strategy needs to change over time, and those changes, as represented by specific tools, technologies, application requirements and so forth, involve three concepts (scalability, extensibility and flexibility) that will form a large part of the lingua franca discussion on business analytics architecture and investments.

The scrap heap of good ideas is filled with projects that just could not "scale." **Scalability**is the capability of a system, network or process to handle a growing amount of work, or its potential to be enlarged in order to accommodate that growth (Wikipedia, 22 September 2015). During the vision phase, the CAO can use the lingua franca to raise the consciousness of the enterprise concerning what scaling means, both from a technical standpoint (for example, "We can only do that if we buy more servers") and a practical business model perspective (for example, "Doing that would be impractical or too expensive").

Business models change over time, as do enterprises' need to store and analyze new datasets for new purposes. **Extensibility**is "a software design principle defined as a system's ability to have new functionality extended … [so] that recompiling or changing the original source code is unnecessary when changing a system's behavior …" (Wikipedia, 22 September 2015). The idea of building business analytics capabilities that can be modified and enhanced over time without a major redevelopment project is an important concept to get across to the enterprise because it may mean higher upfront costs and longer time to build in extensibility that ultimately provides better total cost of ownership (TCO).

**Flexibility**is the quality of bending easily without breaking (Google, 22 September 2015). The goal of creating a strong foundation is that it supports flexibility for building out business analytics initiatives that require multiple data types and stores, varying analytical requirements, application modifications, and a set of future demands that can only be characterized with a Donald Rumsfeld-esque flair as "unknown unknowns." The idea of building in flexibility is the part of the business analytics vision that promotes and champions continuous improvement.

The Gartner Business Analytics Strategy Compass

The business analytics vision process is a setup for creating a business analytics strategy to achieve higher levels of business analytics maturity. The CAO can use the lingua franca idea and the Gartner business analytics compass to introduce and discuss the impacts of business analytics initiatives.

CAOs need to view strategy as a continuous, dynamic process. This process should:

* Describe how to get to where you want to go
* Identify and allocate resources
* Define how to measure success
* Dynamically adapt to changing circumstances
* Act both proactively and reactively

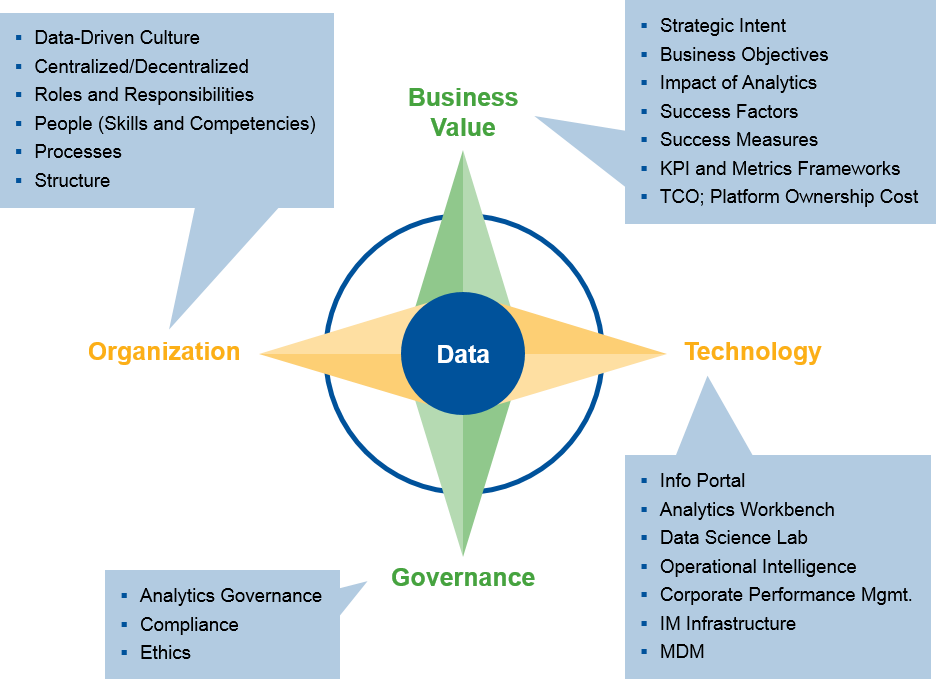
The vision narrative gives the CAO a foundation on which to build out a comprehensive business analytics strategy. The vision narrative is grounded in enterprise culture, linked to financial objectives, and creates a lingua franca or vocabulary and set of topics that are required to move to the strategy-planning phase.

In ["Use the Gartner Business Analytics Compass to Drive Strategy,"](https://www.gartner.com/doc/code/274759?ref=ddisp)Gartner provides a strategy compass for identifying the important factors that need to be considered in any comprehensive business analytics strategy.

This compass (see Figure 2) provides a framework for creating a successful business analytics strategy. CAOs need to align their strategies using both axes of the compass. The north-to-south axis — from business value to governance — is focused on the business perspective. The west-to-east axis — organization to technology — addresses specific operations and IT challenges.

**Figure 2.**Gartner Business Analytics Strategy Compass

*KPI = key performance indicator*



Source: Gartner (December 2015)

There are four particularly high-profile change management issues to consider when using the Gartner business analytics strategy compass as a foundational aspect of the lingua franca.

First, in the organization compass direction, working on the people issue will be critical. The CAO should identify and begin to engage the business leaders who are "diplomatic energizers" (that is, business leaders who know how to handle the inevitable resistance to change in a way that adds positive energy to achieving a goal). The CAO also needs to evaluate the current state of analytical skills (data science and so forth) and build a vision for investments to foster or strengthen internal capabilities. In addition, it is likely that there will be a skills gap that will need to be filled — short term and even long term — with external hires/acquisitions/consultants, and the vision needs to frame and speak to that element of strategy.

Second, unless the new CAO has a "green field," the business analytics program will need to be overlaid onto existing business process and business analytics platform investments. This concern is based in both the organization and business value compass directions. The CAO needs to use the four financial objectives approach to identify and prioritize process and operational policy changes to leverage enhanced analytics capabilities. Direct confrontation is unlikely to be effective and will require a more subtle approach, like tai chi, to achieve change (see ["How to Use Tai Chi to Find and Act on Business Intelligence and Analytics Opportunities That Are Hidden in Plain Sight"](https://www.gartner.com/doc/code/271467?ref=ddisp&latest=true)).

Third, the technology compass direction is easy to focus on because product and vendor selection is something that most enterprises have become good at because it can be measured and yields a sense of accomplishment. Given the work required to build the vision, create a strategy and affect change, new CAOs must guard against the human tendency to be overreliant on tools to avoid some of the other hard work involved. It should be a red flag for CAOs when they hear the question, "Isn't there just a tool …?" That said, the CAO does need to envision the strategy for building out a big data architecture for analytics, including the acquisition of new development tools like Spark and Hadoop, and to consider where cloud services may be required.

Fourth, also in the technology compass direction, is the idea of "data is an asset." This idea has been around forever. The CAO needs to make this idea real. Data is just 1s and 0s; "quality data" is a strategic asset. "Quality data" is defined as data that has clear provenance, that can be structured for a purpose, and that is governed capably through effective information governance and master data management (MDM) programs. One approach that the CAO can take is to talk in terms of building a "quality data" supply chain that will make shareable data available across the enterprise.

A successful business analytics strategy will incorporate all four directions on the compass. Follow the best practices in this research to ensure the success of your strategy.