

The Benefits of Business Intelligence

Business Intelligence is, according to many analysts, the number one area for investment by IT Directors. In this article Rob Edmonds, Managing Director of Business Intelligence (BI) specialists Altimus, will explain the benefits that BI can bring to an organisation and describe how to make it work for you.



Business Intelligence, when properly implemented and used, delivers many benefits. Some of the key advantages include:

- ✓ Alignment of an organisation around a consistent set of Key Performance Indicators (KPIs) and Metrics
- ✓ Quicker, fact-based decision making
- ✓ Simplified graphical presentation of KPIs and metrics
- ✓ Reliable presentation of information ('One version of the truth')
- ✓ Combination of multiple data sources (ERP, CRM, Spreadsheets, Budgets...)
- ✓ Faster collection and dissemination of information

Business Intelligence is an umbrella term, which encompasses a vast array of other terms coined by consultants over the years such as Performance Management, Executive Dashboards, Data Warehouse, Scorecards. Here we will focus on the major benefit of alignment.

BI is often thought of as a software solution. However modern software is relatively easy to implement, allowing the focus to shift to the more important areas of process design and implementation.

Alignment

With carefully designed KPIs and Metrics, it is possible to use BI to align the organisation towards its strategic goals. The way this works is conceptually simple, but difficult to make work.

1. First of all design the KPIs that are right for your organisation and its strategy.
2. Work out the appropriate KPIs for the next level down that support the top level KPI.
3. Repeat until all the appropriate levels in the organisation have a clearly defined set of KPIs.

Business Intelligence In a Nutshell

Business Intelligence (BI) is much more than software and describes a set of processes and technologies for simplifying and enhancing the use of information within a Company. In BI data is gathered from the IT systems in a company, whether they be ERP or CRM systems, or from Excel spreadsheets and other personal productivity tools. Data is cleaned, standardised and then presented to business users in a friendly way.

Sometimes this will use a specialist Business Intelligence tool, but often Excel will suffice, particularly with the powerful Pivot Table feature.

Information is displayed using dashboards and scorecards, explored using 'slice and dice' techniques and experimented on with data mining and forecasting tools.

Combining plan and actual information allows a performance management framework to be built, with Key Performance Indicators (KPIs) and metrics disseminated throughout the organisation.

Once the framework is agreed there are a number of change management issues which need to be addressed to get such a system used in practice. However many organisations fail at the first hurdle. We use the term ‘design KPIs’ deliberately; this is a deliberate and specialist process.

Well designed KPIs will have the following characteristics:

- ✓ Aligned with the competitive advantage of the organisation
- ✓ Forward-looking (lead indicators) that predict future outcomes
- ✓ Focus on performance drivers rather than outcomes
- ✓ Often be a ratio to allow combinations of metrics

Forward-looking, or lead, indicators are those which predict how the organisation will perform financially in the future if the KPI is improved now. This means that if the indicator is turning down there is time to improve the indicator before the impact is felt. A good example of this is on time delivery. If an organisation delivers on time to its customers then there is a greater likelihood of repeat business. If an organisation provides poor service then the customer is likely to go elsewhere.

Linked to this is the concept of process related and outcome related KPIs. The outcome of a process is, for example, the on time delivery mentioned above. However what drives on time delivery? What is the process for achieving the outcome? By identifying a key performance indicator which predicts the lead outcome then more time is available to fix the problem. It is important, though, to have a balance between process related and outcome related KPIs – after all organisations deliver outcomes not process.

Ratios make for good KPIs if they are correctly defined since they reflect the movement of two numbers (or more) in relation to each other. When viewing the metric the user can expand the KPI into its component parts as well as to the next level of supporting detail.

The number of KPIs is also important. It is tempting to have many KPIs, but this risks losing sight of the wood for the trees. Our research, and modern psychological theory, points to about 7 as being an optimum number, although between 5 and 10 can be used. Simply this is the number of pieces of information that can be assimilated by an individual at any one time.

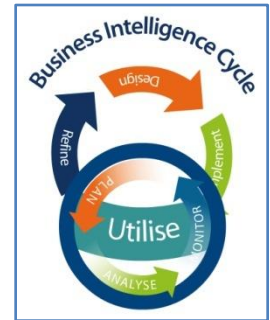
The dashboard is a good way of displaying KPI information. This exampleⁱ shows how this can be achieved clearly and simply without the need for consuming much real estate. At a glance the executive can see the value and trend of the KPIs, performance against target, and also shows straight away where action is required.



KPIs designed in this way, deployed through the organisation, with appropriate tools for collating and viewing the information promote the alignment of the organisation with the defined strategic goals. To enable this requires a clear process. The Business Intelligence Lifecycle model which Altimus has used with our clients over many years is one way of achieving this.

Business Intelligence Lifecycle

The BI lifecycle model emphasises the iterative approach required to successfully extract maximum benefit from investment in Business Intelligence. It is iterative because the BI solution needs to evolve as the business evolves. A quick example is a client who designed a good KPI as being average selling price per unit. This made sense and enabled them to track price pressures in their market and take appropriate action. However when they acquired a company whose average selling price was 100 times higher the metric became distorted and required a re-think.



The model starts with design – the appropriate KPIs; and then implement the framework with appropriate processes and technologies. The utilise stage involves its own performance cycle – **Plan** what value the KPIs should be, **Monitor** what they are and **Analyse** to understand the differences. Monitoring will use dashboards and scorecards to show the information quickly and clearly. Analyse will take advantage of modern BI tools such as Excel (yes, really!) Microsoft ProClarity, QlikView or other specialist software to explore the data and deeply understand trends in the underlying data. An important step is then to take stock of the process – how is it performing for you, does it need to be modified. This Refine stage is crucial to taking use of BI to the next level, and is often omitted from a BI program in the euphoria of a successful implementation.

Well designed KPIs implemented through a well thought out performance management framework and using a tried and trusted method delivers tangible benefits for an organisation, with ROIs, according to IDC of >100%ⁱⁱ.

ⁱ Few, Stephen *Information Dashboard Design: The Effective Visual Communication of Data*, 2006, O'Reilly Media

ⁱⁱ IDC : *The Financial Impact of Business Analytics*, IDC #28689, 2003