Power of data

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"The best predictor of what people will buy in the future is what they've bought in the past" was the message from a US knowledge management expert, Tom Davenport, on a recent visit to Australia. Davenport says more companies are using data analytics to know what their customers do and which services they are most likely to buy, allowing them to remodel their businesses on that basis.

The Red Lobster logo in New York, which tries to recreate the ambience of a seaside town in Maine. **Photo: Bloomberg**

He points to Darden, a group of US restaurant chains, including Olive Garden and Red Lobster, that used data analytics to evaluate the success of remodelling their premises. It learnt that making small changes to the interior and medium changes to the exteriors delivered the best return on investment.

Marriott Hotels started using data analytics for its room rates. It took data from separate databases and analysed the relationships between them. It learnt they could afford to give return guests who had spent more on room service a cheaper rate to get them back, knowing they would gain on other services.

Davenport has tales of companies finding surprising correlations, such as an insurance company that found a correlation between the likelihood of having a car accident and defaulting on a credit card. This meant it could offer a better credit rate to people who had never had a car accident.

Or the store that observed men buying nappies on a Friday or Saturday night were also inclined to buy beer. In this case, however, the store didn't want to put baby products next to alcohol.

With many affordable (even free) analytics programs around, as well as options to buy data analytics as a service, smaller businesses should consider the competitive advantages these tools can provide.

Mobile coffee van franchise Cafe2U does detailed data analysis so it knows exactly what is required to make a mobile van profitable. Variables such as the daily number of stops, average spend per customer and product profit margins are analysed. This has helped in drawing up much better geographical areas for each franchise.

When it began franchising in 2004, new franchisees would always ask franchise sales consultant John Stanton for the biggest and best territory. The boundaries needed to be drawn based on science, not guesswork, says Stanton, so Cafe2U used Deloitte Analytics to map out territory.

The most surprising insight has been "size is so irrelevant", says Stanton. In fact, Stanton is now convinced smaller territories are preferable as they allow operators to spend less time driving and more time selling. Having several smaller franchise territories in the same region also builds brand identity because "people see our vans as they are driving around", he says.

This ability to understand the earning potential of different markets has helped Cafe2U export the franchise to Britain and the US. It is looking at other markets and knows where it should be in all the major cities in New Zealand.

Data analytics tip box

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Use all the data: Web, sales, marketing, finance ... all enterprise divisions should co-operate.

Correlate: The relationships between data sets is where the most powerful insights are hidden.

Drill down: The more granular the better as this allows you to segment your offerings.

Leadership: The relationship between the analyst and the decision-maker is vital. There's no point knowing where the business has room to improve if no changes are implemented.

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