



Avondale Perspective:
Data-Driven
Decision-Making

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## **Avondale Perspective:**

# **Data-Driven Decision-Making**

Data has become a strategic business asset. Companies that emphasize decision-making based on data and business analytics demonstrate productivity improvements by 5-6% according to researchers at MIT and Wharton<sup>1</sup>. "In a modern economy," the New York Times states, "information should be the prime asset — the raw material of new products and services, smarter decisions, competitive advantage for companies, and greater growth and productivity."<sup>2</sup>

In our experience, answering even basic questions about a business often requires extensive data analytics. Consider:

- How much contribution or operating profit am I generating from each customer?
- What are the key drivers of customer attrition?
- How well am I maintaining pricing and margin discipline across regions, customers and industry verticals? How well am I cross-selling?
- What are the demographic differences at the regional (or even ZIP code) level that I can use to drive my marketing and product assortment choices?
- How can I work with my partners to better understand value chain economics and drive profitable growth across the chain?
- Where are the opportunities for profitable growth within my existing customer base?

However, in our endless quest for information – enabled by Moore's Law-like advances in storage and other technologies – it's easy to become overwhelmed by the data we're collecting. In a recent survey of data professionals by Unisphere Research, one-third of respondents reported the amount of data

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<sup>&</sup>lt;sup>1</sup> "Strength in Numbers: How Does Data-Driven Decisionmaking Affect Firm Performance?" Brynjolfsson, E.; Hitt, L.; Heekyoung, Hellen Kim; 4/22/11, referenced at <a href="http://papers.ssrn.com/sol3/papers.cfm?abstract\_id=1819486">http://papers.ssrn.com/sol3/papers.cfm?abstract\_id=1819486</a>
<sup>2</sup> "When There's No Such Thing as Too Much Information," The New York Times, 4/23/11, referenced at <a href="http://www.nytimes.com/2011/04/24/business/24unboxed.html">http://www.nytimes.com/2011/04/24/business/24unboxed.html</a>



within their enterprises grew by 25% or more over the past year. Additionally, one out of 10 respondents reported that they now manage more than 1 petabyte of data, or about 1 million gigabytes.<sup>3</sup>

How can companies avoid drowning in all the data they're collecting?

#### A Data-Driven Approach

The challenge for management teams is mining this growing repository of data for the insights that truly drive profitable business growth. We have seen success in an analytics-driven, four-step approach that enables businesses to get quick answers to drive near-term profitable growth and allows them to systematize improvements to create a long-term step change in performance.

Step 1: Understand the key value drivers in the business and quantify their impact. This information is gathered through a combination of data analysis, surveys and discussions with key stakeholders in the business about what they perceive as the key value drivers. Ask the management team, line of business managers and front-line personnel what data they look at, the types of analyses they perform and the insights they receive in return. Interviewing employees across different functions – finance, sales, marketing, etc. – will provide a broader array of insights and also minimize built-in biases that often influence decision-making. Unless you can get consensus on these value drivers – supported by data, not un-validated hypotheses – you won't be able to move forward.

**Step 2: Prioritize the profitable growth "drill sites."** Use the data to validate the growth areas in the business based on their value impact. To really get to bedrock, you'll likely need specialists that can crunch the data in a comprehensive way. Creating business intelligence from raw data requires special skills that many organizations don't have in-house.

One of our clients, a telecommunications services provider, was seeing high levels of churn in its core business but had been unsuccessful in managing this customer attrition. We took a deep dive into the past five years of the company's data – by customer, product, geography and sales channel – to identify earlier signs that a customer was getting ready to cancel their service.

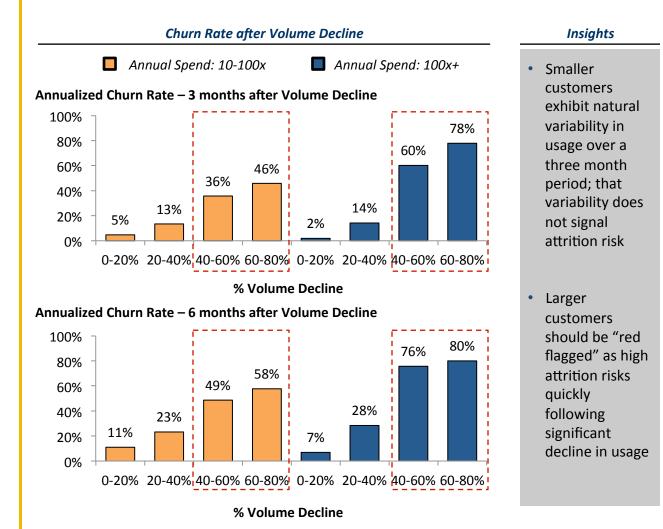
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<sup>&</sup>lt;sup>3</sup> "Enterprise Data Growth: to Petabytes and Beyond," Database Trends and Application, 9/14/2011, referenced at <a href="http://www.dbta.com/Articles/Editorial/Trends-and-Applications/Enterprise-Data-Growth-to-Petabytes-and-Beyond-77491.aspxx">http://www.dbta.com/Articles/Editorial/Trends-and-Applications/Enterprise-Data-Growth-to-Petabytes-and-Beyond-77491.aspxx</a>



**Step 3: Begin drilling.** For each attractive "drill site," analysts will need to develop a hand-crafted approach that ties together the individual data sources required to illuminate key value drivers and decisions to be made. From there, your team can develop the recommended strategic path forward to best drive profitable growth.

In the case of our telecommunications client, our team developed a model to define customer value and key attrition drivers and integrated a new set of surveys for both existing and lost customers. The analyses uncovered a few large enterprise customers that were showing a steady three-month decline in usage – a clear signal that those customers were in the process of migrating to another provider.

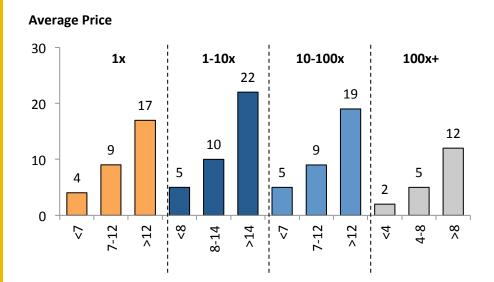


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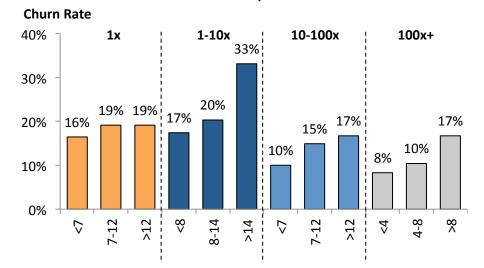


Churn reduction was just one of several levers we identified that would help the company improve the health of its customer base.

#### Churn by Customer Spend and Price Band



#### **Annual Spend Band**



**Annual Spend Band** 

#### Insights

- Pricing is highly variable, even for our largest customers
- Price is only a moderately strong driver of churn; a 50% price reduction generally appears to drive only a 2-7% lower churn rate
- Therefore discounting and downward price pressure should be resisted

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Further analysis helped the team identify five "no regrets" opportunities to reduce churn that would potentially create \$15 million to \$25 million in incremental value.

	Potential Churn Reduction Opportunities	Estimated Value Impact
A	<ul> <li>Impact Churn via Stimulation</li> <li>Drive multi-category usage</li> <li>Drive moderator growth among existing customers</li> <li>Drive increased usage among existing customers</li> </ul>	\$10-20MM
В	<ul> <li>Impact "Red Flag" Churn</li> <li>Automate the "red flagging" of near-term high-risk customers</li> <li>Increase investment in turning around "red flagged" customers</li> <li>Selectively reduce price for "red flagged" customers</li> </ul>	\$10-20MM
С	Address key sources of customer dissatisfaction	\$1-5MM
D	Impact Churn via Pricing Strategy  — Resist downward price pressure	\$0-5MM
E	Focus customer acquisition investment on lower-churn segments	TBD
	Potential "No Regrets" Value Impact from Addressing Churn <sup>1</sup> :	\$20-50MM

**Step 4:** Align the organization around the path forward. Senior management and other key stakeholders must reach consensus around data-driven decision-making as the linchpin for future strategy-setting. This alignment must be supported by new systems and practices to sustain and expand data-driven decision-making as a best practice. New processes should be built upon a solid research fact base, outside of traditional IT data warehousing, that is designed specifically for driving business-focus results.

For our telecommunications client, the next step after identifying the value-creation levers was to embed the collection of acquisition, attrition and customer value data, both as a data/reporting process and as a key part of their decision-making processes.

#### Conclusion

More data means more opportunities to understand your markets, customers and competitors. Many organizations, however, don't take full advantage of the data at their disposal to develop value-driving insights. Effective data-driven decision-making requires drilling to new levels of granularity to uncover the levers that truly drive profitable growth. To develop this competency for the long term, it's also important to systematize it with the right processes, tools and mindset, which will help to embed data-driven decision-making into the DNA of your organization.

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### **Avondale News**



#### Avondale named one of the fastest growing companies in America

We are pleased to announce and honored to be ranked number 95 on Inc. magazine's 30th annual Inc. 500 list, an exclusive ranking of the nation's fastest growing private companies. Our success is a direct result of the trust instilled in us by our clients, investors and partners. We have been fortunate to work with a talented group of value-oriented individuals, committed to growing the value of their businesses.

Avondale is the top ranked strategic advisory firm and the fourth ranked Chicago business on the 2011 Inc 500 list. The company was formed in 2005 by Bill Stewart and Karl Stark following successful careers at other top-tier strategic advisory firms. Since then, the company has grown to more than 20 professionals with deep experience across multiple disciplines: from principal investing to senior executive leadership. The Avondale team focuses on value creating insights through granular strategic and financial analysis, advising investors and senior management teams across a broad array of topics, including:

- Value Growth Advisory
- Business Opportunity Assessment
- M&A Advisory
- Management Assisted Buyouts

Please visit us at our new office at 640 N. LaSalle.



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### **About Avondale**

Avondale advises corporations on how to create profitable growth and increase the financial value of their business. Avondale works with senior management teams across a range of industries to develop practical and actionable solutions that sustain long-term value creation.

### Contact Avondale

For more information on Avondale, contact one of the Managing Directors at 312.676.9644 or at the email addresses below.

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