

Shockproofing a business

How data mining can help you prepare for unexpected events **Interviewed by Meredyth McKenzie**

There are a lot of uncontrollable factors that can affect your business. Economic, technological, competitive, regulatory, political issues and even succession, can all have an impact on your business at the most inconvenient of times. But planning in advance can be the key to maintaining your business through these shocks.

“If you plan in advance, even for a negative event, you can oftentimes increase your options in the event of a shock,” says Jim Lane, director of Redbank Advisors with GBQ Partners LLC. “If you know a drop in demand would force you to reduce your head count, planning in advance and restructuring work assignments can help you do that without endangering quality or sacrificing customer satisfaction. You’ll be in a much stronger position than you would be had you not thought it through in advance.”

Smart Business spoke with Lane about the importance of data mining to help prepare for these uncontrollable factors.

What is data mining, and why is it important?

Data mining is taking a look at the inventory of information that you normally generate as part of your ongoing business, and peeling it apart for insight into your business.

The biggest reason to do it is because we tend to operate on automatic pilot. As you’re driving to work everyday, you don’t take into account everything you pass. The first few times you saw everything and were making careful decisions about where to turn, or anticipated it. Now, you go there on automatic pilot.

The same is true in your management approach. You get in a groove for managing your business in a particular way and don’t look at the scenery anymore. The scenery in business is constantly changing. Unlike your route to work, which only changes when they change the road, the business environment is changing all the time. Competitors are coming in and changing it. Today, the economy and even political change are factors that people are not used to taking into account when changing and improving the business. Data mining gets you in touch with what’s going on right now and what the trends have been, so you can identify what’s been changing.



Jim Lane
Director
Redbank Advisors with GBQ Partners LLC

How can you start data mining in your business?

That depends on how sophisticated your company is, in terms of infrastructure. If you have sophisticated systems, often they come with reporting and data mining tools that you can use. If your business is smaller, you may need to export the information from your business systems into Microsoft Excel or another analytic tool in order to do trending and spot extremes.

A good place to start is with your order records. Make a line for every sale you’ve made in the past 24 months, including the sale price, cost, customer and the market segment that customer is in. By doing that, you can begin to spot trends on pricing. Is erosion occurring in your pricing? You can look at your margins and determine how you are doing on an order-by-order basis. You can compare sectors, divisions or plant performances against one another. That’s an easy way to get into it.

How often should you complete data mining and how can this be used in business planning?

You should do it on an ongoing basis. It’s the kind of thing you want to take into account in your daily operations. It’s looking

at what’s happening in the business, what the trends are, how you are doing against your plan, and performance monitoring on a monthly or periodic basis. You also want to analyze trends and performance on an annual basis, prior to strategic planning. This allows you to determine if your strategy needs to shift, or if you’re on track. If you do need to change your performance, analytics help you see where there are opportunities for performance improvement in the business and what those improvements might be.

What challenges and risks are associated with data mining?

The challenge is having the data in a form that’s usable. In spite of the fact that we all think of information systems as being a done deal, in many businesses, they are still not all that useful. Getting information that is decision-ready can take some massaging and normalizing.

The risks occur in not analyzing your data and taking a look at what’s happening in your business. The risks of doing this are relatively few. You need to be conscious of the amount of data you’re looking at so you have a statistically valid sample. Once you get beyond that, the benefits of looking at the data and doing the analytics far outweigh any risks of making a wrong decision based on it.

What are the benefits associated with data mining?

When you’re in touch with your business, and the performance of your various products and services, as well as customers, you can begin to make decisions about where to focus the energy of the business. If you find a product line that’s more profitable than others, you might want to put more emphasis on selling that. If you find a group of customers that are not profitable to serve, you can focus your efforts on other customers and potentially raise prices on the customers who are not profitable to serve. More sophisticated analyses enable leadership to play ‘what if.’ This is incredibly valuable in shockproofing a business. It puts control into leadership’s hands to determine the direction of the business and the response it will take to those external factors. <<

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