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Gain Competitive Advantage Using External Data and Predictive Intelligence

Darwin never claimed that evolutionary success came down to survival of the fittest. To the contrary, he stated, “it is not the strongest that survives; but…the one that is able best to adapt and adjust to the changing environment in which it finds itself.” The long list of once thriving businesses that failed because they lacked the agility to evolve as rapidly as their markets is proof that this lesson applies equally to commerce, and an inability to quickly read and respond to market signals is a common cause of that failure. External data includes information about competitors, customers and the world outside an organization such as economic and market statistics. Corporations that integrate external data in their analysis, planning and performance reviews are better able to detect and respond to their environment and by doing so, to survive and thrive.

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Business competition is a matter of us-versus-them, so why limit analysis, planning and performance reviews to internal comparisons such as actual-to-plan and percentage changes from a prior period? Why celebrate a 7% increase in sales against an expected 5% rise when the market grew by 12% and, in reality, the company experienced a market share loss? To remain competitive, a comprehensive set of external data is no longer a “nice to have” item. External data is necessary for useful and accurate business-focused planning and budgeting, and for performance benchmarking. Consider the example of an ice cream vendor who sells out on very hot days even when charging a premium but lowers prices on cooler days trying to move the inventory. Using only internal data—volume sold and price per unit—one would erroneously conclude that the more you charge, the more you sell. Including external data such as temperature provides a more complete picture that produces more accurate forecasts and recommendations. This is becoming increasingly important as organizations adopt artificial intelligence (AI) using machine learning (ML), because omitting external data in modeling will result in flawed models with potentially expensive negative consequences.

External data can be used in all types of planning. It may be highly detailed, tactical planning performed by category managers to support a sales and operations planning process, or long-range planning that drives capital investment, strategic investments, or merger and acquisition assessments. Incorporating external data benefits the entire organization, including the senior leadership team, finance and accounting, and business analysts working in operational roles. External data can improve the accuracy of projections. Our Next-Generation Business Planning Benchmark Research found fewer than one-half of participants say that their specific plans are accurate or very accurate, including sales (32% of participants), marketing (37%), for demand planning (41%) and long-range planning 39%.

Constructing and using business and financial planning models based on a more robust set of external data can result in more accurate forecasts and plans that are more adaptable to change. This in turn can improve a company's operating and financial performance. However, until recently, corporations have included little (if any) outside intelligence because it was not readily accessible in the time available. Relying solely on internal numbers is a habit that must be broken because there are practical and affordable alternatives. Today, there are services that supply a range of data from general economic to specific industries and even specialized niche markets. Some of these services have worldwide coverage while others may focus on specific geographies. Some data providers offer only historical numbers while others offer forecast data services that use proprietary methods to project, for example, demand for specific products in specific markets.

This wealth of available data poses a new issue for business and financial planners because they must identify the data most relevant to their particular requirements before incorporating it into a model. And realistically, the acquisition and use of external data must fit within existing planning processes. Although some organizations may have the in-house ability to determine which sets of data fit their needs, others will need third-party advisory services to help operationalize their models so that they accurately reflect the interaction between external dynamics, internal operations and financial constraints. Today's focus on digital transformation will expand the use cases for external data. For example, using analytical systems to continuously monitor external feeds and alert executives or managers when the data suggest that their demand or supply chain are out of step with reality. These alerts enable more timely course corrections to mitigate risk or seize an opportunity.

Business challenges never really change because companies must always attract customers, hire and retain talented workers, and operate efficiently and profitably. What does change are the tools available and those organizations that learn to use new tools and techniques will gain a competitive advantage. This is especially true in the areas of forecasting, planning, analyzing and reviewing because using external data to generate predictive intelligence can provide a corporation with such an advantage by being able to plan more accurately and adapt to change faster.

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Robert Kugel is responsible for the Office of Finance and business research, focusing on the intersection of information technology with the finance organization and business. His research agenda includes the application of IT to finance and business process optimization, looking particularly at ERP and continuous accounting, financial performance management, predictive planning, price and revenue management, revenue and lease accounting and robotic finance.