

BI – Holistic Information

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Introduction

Can it happen that on the basis of available information a **correct decision** is taken, but it turns out to be a **bad business decision** ? This can happen if holistic information is not available for decision making.

As business grows in size, the basic business functions get split into smaller and smaller units. For example when the business is small the marketing, sales, accounts receivable and customer complaints are all handled by one person. As it grows, the marketing gets a separate identify, sales is a separate department, accounts receivable are handled by some other person and there is someone else to handle customer complaints. Each of these managers tends to lose sight of the customer as a complete entity. People tend to forget that it is the customer who is finally paying their salary.

Now imagine that a customer has not paid regularly over the last three months, and on the basis of this, the credit control manager puts a hold on his account and therefore all sales to him stop. What the credit control manager does not know is that the customer is on the last leg of implementing a big project, there are several pending orders from his account plus a huge potential once his plant goes live and there were several problems in the last supply made by you. Yet your credit control manager has put a hold! In anger, the customer switches his business to your competitor. Bam...

The decision from the sole perspective of the credit manager is correct, but totally wrong from a business perspective.

Holistic Information – Customer Relationship

Some medicines only cure a particular symptom, but not the entire disease. Holistic medicine will try to cure the complete disease. Holistic information is like holistic medicine. It gives a full picture of the situation leading to much better decision.

For example in the above problem the credit manager would have been able to take a better business decision if he had known the full relationship of your company with the customer, on one page e.g.

- Trend of sales to the customer
- Trend of receipts from the customer
- Trend of AR – past dues and current dues

- Trend of customer complaints
- Pending Orders
- Customer Profile
- Trend of DSO Ratio (daily sales outstanding, i.e. account receivable by average daily sales over the past 12 months)

This type of a customer 'kundali' would give him a 360 degree view of the customer and the value of his relationship with the company. It would have led to a softer decision, probably negotiations and gentler handling.

In our practice we had an opportunity to do such a report. An image of the report (figure 1) is given below :

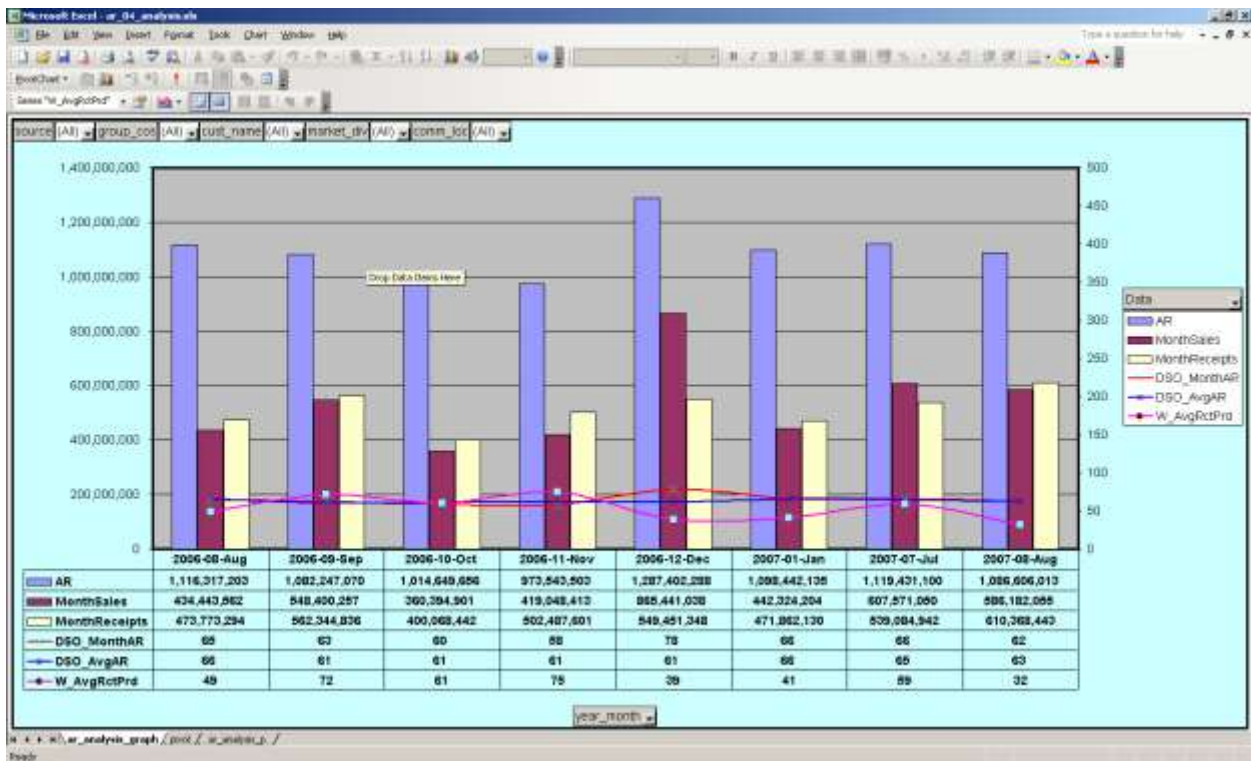


Figure 1

This report was a complicated report which took data from sales, bank receipts, accounts receivable and calculated metrics DSO based on month end AR, DSO based on average AR and weighted average credit period enjoyed. The user can drill down to a branch office, or an industry or a customer and see all this

information. It was used by my client to see the full relationship with the customer and revise their credit policy accordingly.

Holistic Information : Product Profitability

Product Costing and Profitability has become a very hot topic in recent times. With increasing input cost and tremendous competition, corporate are making efforts to increase profitability and reduce cost. Knowing how much each product is contributing to the kitty is of vital importance. However product profitability cannot be seen in isolation. The BI team may make a great report to identify the revenues and cost of a product. You will be able to quickly identify those items which have a very low margin. It may be tempting to discard such products and concentrate on the high margin products only. While it is may be a correct decision to discard low profitability products, it may be a wrong business decision to do so unless all the facts are known.

The BI report needs to give the decision maker not only the product profitability, but also the customer profitability. While viewing customer profitability, the user should be able to drill down to the products which a customer is purchasing. It is quite possible that products having a low profitability are being 'carried' by business in order to retain the overall account of the customer. It is also possible that if the product is discontinued, the customer may go to your competitor as he is likely to get a much fuller service from him !

In the following screenshot (Figure 2), the report shows the product wise contribution of a fictitious company. Product 14 is yielding a very low contribution.

It may be tempting to remove this product and use the resources in other higher yielding products.

But when the same report is seen by bringing in the customer dimension also, the scene is different.

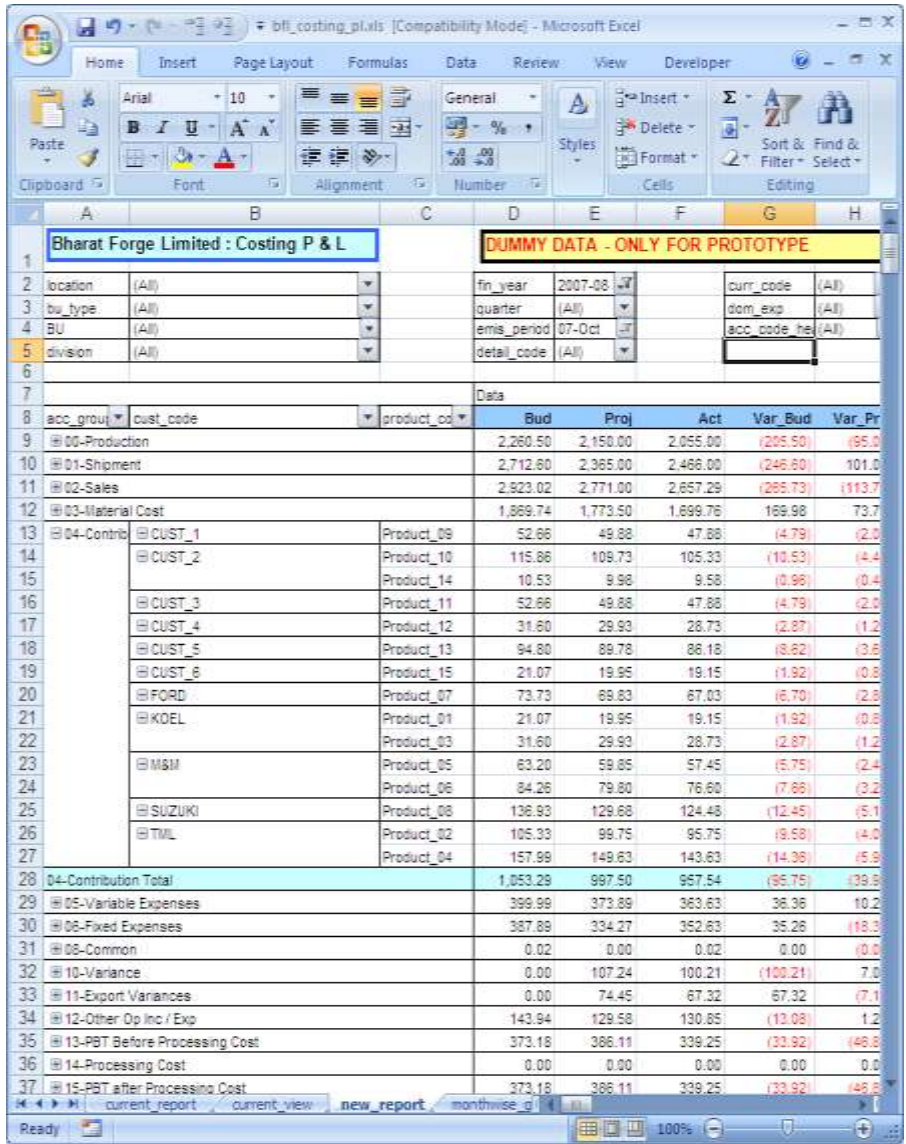
Data		Bud	Proj	Act	Var_Bud	Var_Proj
00-Production		2,260.50	2,150.00	2,055.00	(205.50)	(95.00)
01-Shipment		2,712.60	2,365.00	2,466.00	(246.60)	101.00
02-Sales		2,923.02	2,771.00	2,657.29	(265.73)	(113.71)
03-Material Cost		1,869.74	1,773.50	1,699.76	169.98	73.74
04-Contrib	Product_01	21.07	19.95	19.15	(1.92)	(0.80)
	Product_02	105.33	99.75	95.75	(9.58)	(4.00)
	Product_03	31.60	29.93	28.73	(2.87)	(1.20)
	Product_04	157.99	149.63	143.63	(14.36)	(5.99)
	Product_05	63.20	59.85	57.45	(5.75)	(2.40)
	Product_07	73.73	69.83	67.03	(6.70)	(2.80)
	Product_06	84.26	79.80	76.60	(7.66)	(3.20)
	Product_08	136.93	129.68	124.48	(12.45)	(5.19)
	Product_09	52.66	49.88	47.88	(4.79)	(2.00)
	Product_10	115.86	109.73	105.33	(10.53)	(4.40)
	Product_11	52.66	49.88	47.88	(4.79)	(2.00)
	Product_12	31.60	29.93	28.73	(2.87)	(1.20)
	Product_13	94.80	89.78	86.18	(8.62)	(3.60)
	Product_14	10.53	9.98	9.58	(0.96)	(0.40)
	Product_15	21.07	19.95	19.15	(1.92)	(0.80)
04-Contribution Total		1,053.29	997.50	957.54	(95.75)	(39.96)
05-Variable Expenses		399.99	373.89	363.63	36.36	10.26
06-Fixed Expenses		387.89	334.27	352.63	35.26	(18.36)
08-Common		0.02	0.00	0.02	0.00	(0.02)
10-Variance		0.00	107.24	100.21	(100.21)	7.03
11-Export Variances		0.00	74.45	67.32	67.32	(7.13)
12-Other Op Inc / Exp		143.94	129.58	130.85	(13.08)	1.27
13-PBT Before Processing Cost		373.18	386.11	339.25	(33.92)	(46.86)
14-Processing Cost		0.00	0.00	0.00	0.00	0.00
15-PBT after Processing Cost		373.18	386.11	339.25	(33.92)	(46.86)

Figure 2

See the next diagram (figure 3). Here the user finds that the product having a very low margin is in fact being sold to Cust_2. That customer uses both your product as a component in his product. He either takes both or he takes none. Your competitors would be more than willing to accommodate him. So what seemed to be a correct decision based on product level profitability, would have turned out to be a wrong decision based on customer profitability.

These are just two examples where holistic information can make a big difference in decision making.

Figure 3



BI Design Principle:

When a BI report is being designed it is important to bring together other elements of information which will give a complete view of the entity. In order to identify what elements of information you need to bring on one plate, it is essential that the BI designer thinks like a business man and not like a techie. Put yourself in the shoes of the decision maker. Spend time with the decision maker and try to understand how he uses the information and what other information he needs to take his decision. Such interactions will give you tips in identifying the content of the report and will help you in designing the report better. This will enable the decision maker not only to take the correct decision, but a better business decision.

It should be noted that there are a plethora of BI tools now available in the market. What will make the BI application succeed or remain just another unused application is the design. What makes a movie a great hit, is not the technology, but the storyline and the treatment. Remember design is king! Design will differentiate the men from the boys!

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About the Author:



Sanjay Shah (B.Com, CA) is the CEO of Prosys Infotech Private Limited, a Pune; India based company specializing in developing BI solutions on the Microsoft BI Platform. Prosys has developed BI solutions for various companies like Honeywell Automation India Ltd., Alfa Laval India Limited, Kirloskar Group Corporate Office, Kansai Nerolac Paints Limited etc. He can be contacted at sanjay@prosysinfotech.com.