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Big Data for Small Business

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Introduction

Skill gaps are a common change-management impediment. Indeed, “I am not very good with computers” is a chronic chorus amid process improvement projects. Unfortunately, many people anchored in this paradigm do not realize that they might as well have “dinosaur” tattooed on their foreheads. The refusal to assimilate technology into our personal shtick rapidly diminishes our competitive differentiability.

An analogous phenomenon applies to the business models in which these people work. Information technology is the Achilles’ heel for numerous small businesses. Indeed,

*Information technology is
the Achilles’ heel for
most small businesses.*

over the past 14 years during which my primary professional focus has been middle market private equity portfolio companies, I have encountered only ONE business whose system could immediately accommodate the investment thesis. The “3X in 3” EBITDA growth standard has several corollaries, including the ability to

return to work tomorrow morning at a company three times the size of the previous day—with the ability to run it the same way. The implication is that the right information enlightens decision-makers on a timely basis.

Big Data in Action

The big data standard is morphing. Simply put, it takes more than management information systems to achieve differentiation. Analytics are the new frontier. The point is driven home by Steven Levy in his book, *In the Plex. How Google Thinks, Works, and Shapes Our Lives*. Upon reading the book, one may wonder whether Google—not the National Security Agency—is George Orwell’s Big Brother. (Just for kicks, you might revisit Orwell’s *1984* and discover that his predictions were modest!) The beauty of Google’s model is its imperceptible simplicity from the customers’ perspective. This is something to which Steve Jobs subscribed in Apple’s product design. At the heart of Google’s power is the algorithm. Their measure is “long clicks,” indicative of the search engine producing the desired query response.

In the Plex provides a simple search example of “Houston Baker,” which I will borrow and expound upon here. Is the surfer looking for a person or a place? If a place, is it Houston, Texas, Houston, Mississippi, or Houston County, Georgia? If a baker, then what kind of baker? Google maintains gigantic server farms that capture copious quantities of data. Google gets to the “long click” faster by profiling the user. Had the user been surfing from Bellaire, Texas, for wedding dresses and flowers, Google prognosticates that the user is looking for a wedding cake. Hence, such bakers are likely featured in the query response.

Another example of big data is presented in Charles Duhigg’s book, *The Power of Habit: Why We Do What We Do in Life and in Business*. The example regards an irate father who objected to a retailer sending his (minor) teenage daughter baby product promotional fliers. As it turns out, the daughter’s point of sale purchases were being profiled. Her purchases included early pregnancy tests. Deductively, the retailer had a hunch that someone was about to become a mother. Interestingly, the father (and future grandfather) apologized to the retailer, lamenting that the store knew his daughter better than he did.

Yet another application of big data regards a consumer goods manufacturer from my personal archives. Sales surged for a particular product. The reaction seemed completely rational: expand the factory to add capacity and maintain market share. As it turns out, the analysts committed something nerds call a “Type 3 error”—solving the

*Effective analytics avoid
“Type 3 error”—solving
the wrong problem.*

wrong problem. Indeed, loyal customers were purchasing more merchandise because of a quality problem. The product was failing in the field. However, its useful life was sufficient that customers lost track of how long the relatively inexpensive product had actually been in use.

Consequently, no surge in complaints occurred. The quality problem went away by itself because the raw materials that were causing the failures had been exhausted and replaced by materials of “normal” quality. Oops. The company was stuck with excess capacity and a drag on earnings.

Essentially, the big data quest entails trends, regression analysis, correlations, covariance, and statistically significant variables. Data are required to connect the big data dots. In the middle market, there are two generic big data muffs. The first is eschewing needed data capture. The second is not using data in hand. Let’s explore how both points affect small business.

Measure It!

Measure what? The answer may be discovered by using a basic high-level business process map and juxtaposing it against the basic IPO (inputs, processes, and outputs)

model. Essentially, an argument is being made for dashboard metrics. One of the chronic issues I encounter in my practice is the contrast between what leaders opine as the business model's unique value proposition and how their customers describe the business. A startling number of businesses do not employ the Ed Koch (former New City Mayor from 1978 to 1989) technique of asking "How am I doing?" The "inside" perspective should be tempered with the outside, or customer, perspective.

*Resolve to capture
needed data.*

The critical thinking question is "What handful of metrics tells leaders whether things are working or not—for their customers?" If the signal is "not working," then drill-down ability is necessary to get to root cause for corrective and preventive action.

"But our system cannot do that, so we don't track it." Red flag! In my Access GE days working with customers in the field, we routinely resorted to manual data capture for process improvement projects because the right data were unavailable. The results were gratifying. Hint. Hint. The good news is that, per Moore's Law, technology rapidly and simultaneously gets faster and cheaper per computing unit. Leaving critical information needs unaddressed is inexcusable. Nike's marketing slogan frames the urgency: Just do it!

Use it!

Sometimes the desired data are available, but in disarticulated platforms. Most companies accept at face value the 80/20 proposition that a nucleus of customers produce the profits, just as a nucleus of customers constitute the majority of problems.

*Start using data available
to solve for the unknown.*

The conundrum is "Which are the 20 percent?" Absent a mature activity-based costing system, the business might creatively approximate such identification. One approach might be scrutiny across solicitation and service activity from a freestanding CRM, shipment activity from the operating system, and receivables dilution activity from the financial package. On a small scale, PCs can render cheap, but powerful, relational database analytics using Microsoft Access. On a larger scale, a data warehouse is a cost-effective analytical solution.

The guiding principle is "What would you like to know about X? "X" could be a customer. When solving for "X," construct the data elements necessary to answer the question. If there is a gap, refer to the "Measure It!" argument above. In the interim, if there is an approximation that functions as a surrogate, then use it.

Suppose the company is resource constrained and incremental headcount is not an option. What could available data reveal that relieves some of the pressure? In one familiar, chronic small business example, lost deal analysis revealed that resources

were being expended in pursuit of unattractive, inconsequential misfits, i.e., a disconnection between the company's fulfillment capabilities and the customers' requirements. Why did this happen? The company was under duress to increase sales and succumbed to the temptation of "throwing everything against the wall to see what stuck." The solution was obvious. Apply a tighter strike zone for entertaining opportunities and focus on compatibility. Promotional sales incentives may even make sense in these situations.

Summary

Musician Sheryl Crow crooned in her song, "Soak Up the Sun," "it's not having what you want, it's wanting what you have." Big data principles actually provide both. Middle market leaders can have what they want by using data more effectively. The end result—profitable customer relationships—is an easy thing to want when you have it. The antithesis of the argument appears more like AC/DC's "Highway to Hell:" "goin' down all the way." A little preventive, strategic direction can turn the highway to hell into the "Stairway to Heaven." (I just had to squeeze in Led Zeppelin.)

Middle Market Methods™ offers a toolbox of growth and efficiency solutions for value creation to portfolio companies of private equity firms. The premise is that best practice adoption correlates with a smoother ride during the investment hold period, resulting in higher exit multiples. Additionally, deal team time is liberated from operational surprises to invest in new transactions.