Guest Editorial

Advanced Analytics

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There can be little doubt that Analytics is on the rise and will continue to grow in the foreseeable future. For example, according to Gartner (March 2011), technology service providers earned US\$1.65 billion worldwide from analytic applications in 2010, which was a 17.7 per cent increase over the previous year.

The reasons for this trend are clear. First and foremost, the volume of data being generated is growing at an exponential rate — companies now want to store, understand and capitalize on this information. At the same time, computing power has become more affordable, greater importance is being placed on analysing the value of each customer and more software products are available to aid this process.

This growth in volume primarily comes from sources of unstructured information, such as free-form text, and therefore advanced software is required to make sense of these data — hence, there has been massive expansion in this sector. For example, the market leader, Autonomy, has experienced a meteoric rise — this company has delivered 73 per cent compound annual growth in its earnings per share, over 5 years.

This special issue of the journal focuses on Advanced Analytics — which is arguably accounting for much of the growth. Advanced Analytics covers a broad range of activities and includes any solution that supports the identification of meaningful patterns in data, for the purposes of predicting future events and assessing alternative courses of action. Targeting and segmentation models — sometimes known as Data Mining — therefore form part of the repertoire of Advanced Analytic techniques. A fuller explanation of data mining and other Advanced Analytic methods may be found in my paper for the journal last year (JDDMP, October–December 2010, Vol. 12, No. 2, pp. 137–153).

The papers included in this special issue cover a wide range of topics and demonstrate the breadth and depth of Advanced Analytics.

Tom Breur provides an ideal start, by reviewing four approaches that have been shown to be worthwhile in order to gain a more complete understanding of customers. First, Tom firstly discusses the ‘fusion’ of market research and customer data — which I’ve personally found to be a powerful tool on many occasions in the past. He then goes on to consider best practices in direct marketing, the usage of clickstream data and the revolution in social media over the last few years.

The second paper, by Judy Bayer and Edouard Servan-Schreiber, focuses on social network analysis (SNA) in the context of companies that are able to identify their customers and examine the relationships between them. The paper identifies ten business applications of SNA, ranging from customer retention to fraud detection.

Applications such as segmentation and targeting depend on having good predictive data. In the next paper, Tim Drye takes a fresh look at the importance of neighbourhood effects, demonstrates their impact on a consumer database and suggests some strategies to accommodate them. Some of these strategies require fundamental changes to be made — for example, the standard method used to extract test samples in direct marketing actually destroys the possibility of assessing neighbourhood effects.

Not all business questions can be answered via a direct analysis, and not all business processes can be easily or safely changed — so how can the business obtain the necessary evidence to support complex decisions that need to be made? Peter Furness explains that the answer can be to use the technique of Monte Carlo Simulation, in order to simulate alternative business processes and measure their performance.

The next paper, by Wajid Shafiq, considers whether analytics applied to citizens will take off in the public sector — predictive models have been used for many years by central government; however, the discipline is less well developed at the local level. Wajid discusses the barriers and issues concerning the sharing of data, which need to be solved before citizen analytics can play a full role.

The final paper, by Jacques Bughin, describes a study on how digital users make the trade-off between use of free online applications and protection of their privacy. The paper identifies seven segments, with different trade-offs, implying that the value placed on privacy is not homogeneous in the online population. At the same time, the paper provides a great case study on the application of Advanced Analytics techniques, such as the use of conjoint research for trade-off analysis.

I hope that you will enjoy reading the papers in this special issue, and will agree that they illustrate the continuing diversification and evolution of Advanced Analytics.

Barry Leventhal
Guest Editor