Optimizing Business with AI

The 5Ws of Advanced Business Analytics

AI-driven analytics offer solutions for management problems, benefiting businesses seeking a competitive edge. However, managers face challenges in determining the specifics of AI integration, leading to uncertainty and reliance on personal judgment.

toolsgroup® | Navigate Uncertainty™

The topic of artificial intelligence (AI) is widely discussed in the media, and some outlets have sensationalized its potential, creating confusion. Many people find the prospect of applying AI daunting.

Advanced analytics, driven by AI, can help companies solve a host of management problems.

For businesses that are looking to gain the competitive edge, investing in AI development is a smart move, though many managers may find it challenging to determine exactly why, what, where, when, who, and how much to integrate AI into business functions, as well as the extent to which they should rely on their own judgment.

Our goal is to provide more clarity on the topic and explain how you can deploy AI in your organization and optimize business effort with advanced analytics.

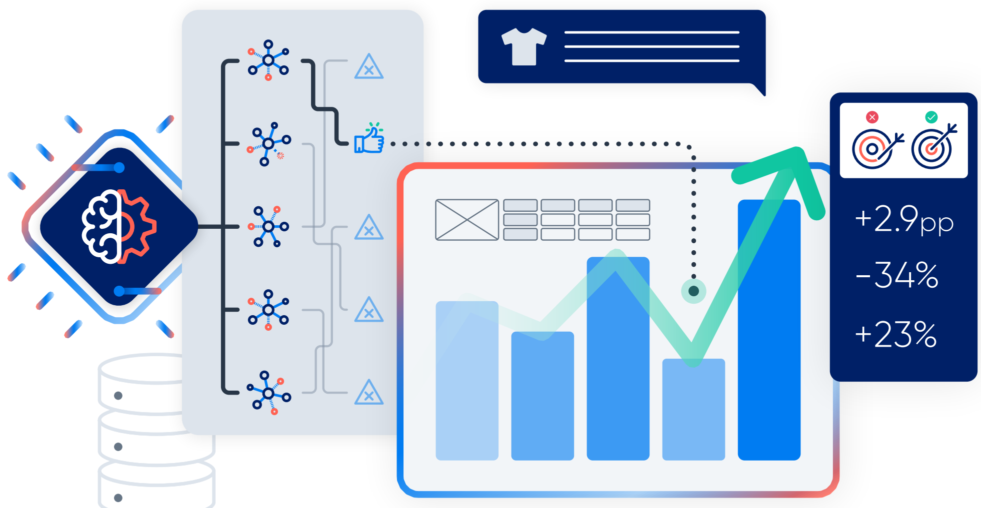
Why

Almost every executive nowadays has been taught the importance of starting with "why".

Why Incorporate Machines into Your Decision-Making Process?

In a competitive business environment, the difference between a winning company and a losing company is typically small. A small, but sustained advantage is all it takes for a leading company to set itself apart from its competitors, and it's essential for a company's long-term success in the market. It's very rare that a leading company has a huge advantage over its competitors, except in the case of a regulatory monopoly.

Prescriptive AI can provide businesses with this competitive advantage. Prescriptive AI doesn't simply act as a support system, it 'works for you', making a real impact on decision-making processes to improve results and create a competitive advantage.



A key benefit of this technology is that it helps managers make decisions in uncertain conditions. We typically have a hard time dealing with uncertainty and we continue to tie ourselves to traditional forecasting methods that analyze what happened last year or even two weeks ago to avoid uncertainty. Prescriptive AI is a superior approach to forecasting, overcoming the limitations of traditional methods.

How Does It Do This?

Imagine someone gave you the ability to look ahead, and you knew exactly what was going to happen. ou have a crystal ball, and you know precisely how your customers, competitors, products, and the market are going to behave. You can even predict the weather. As a manager, what would you do? What could you do differently? How would this help you? I imagine many, if not most or all of you, would answer: 'It would help me avoid making mistakes.' You would choose strategies and approaches that eliminate or at least reduce risks. But, knowing what is going to happen doesn't tell you how to react.

There are other technologies and methods that are perhaps easier and more widely used, aiming to help companies reduce risk. One of the most ubiquitous is descriptive analytics, commonly referred to as 'business intelligence.' This approach looks at historical data to identify patterns, essentially answering the question 'What has happened before?,' which, in fact, tells us very little.

The question of 'what should I do?' remains, and this is where predictive analytics comes in as an extension of the classical approach. Predictive analytics aims to answer the question 'What could happen?' by using past data to predict future outcomes based on a different combination of input variables.

This would work very well... if the future were predictable.

Prescriptive analytics is a departure from the classical approach. It answers the question that matters most to managers: "What should we do now?".

What

What Business Problems Can AI Solve?

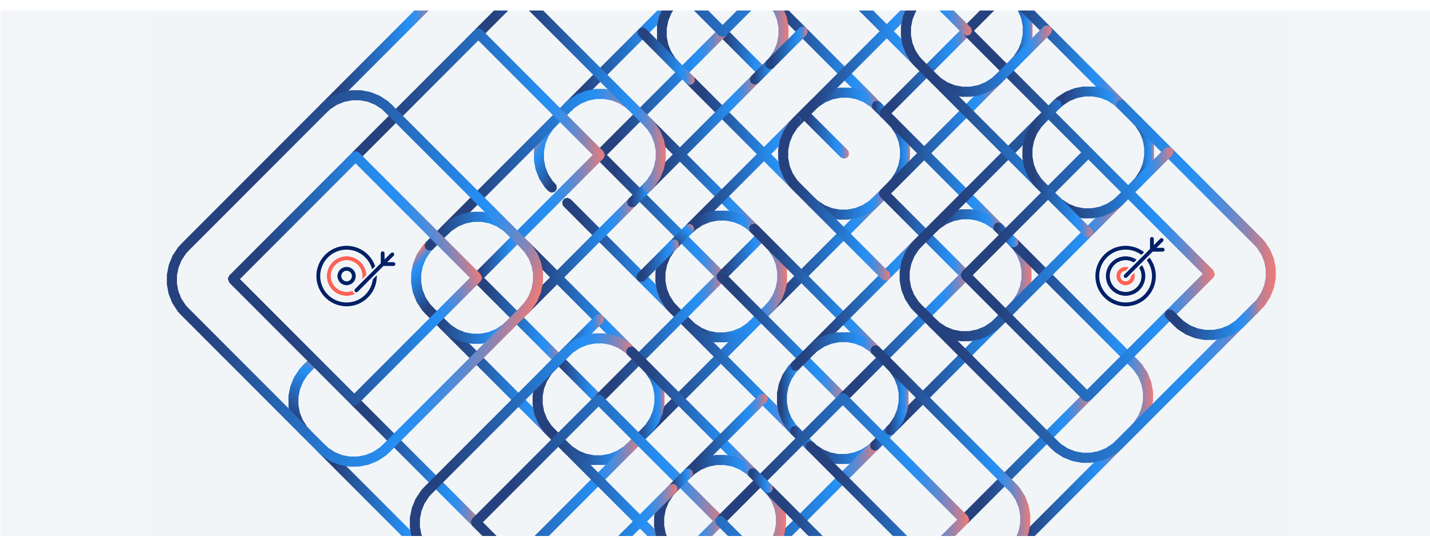
Which KPIs does your company need to improve to gain a competitive advantage?

The "what" will be different in different cases. For every company the path is different, the problems are different, though some are common.

One thing that most companies can definitely improve is value-based pricing. This means understanding the perceived value of a product or service according to the irritational customer entity. Understanding the perception of value has historically been a challenge for businesses, as has its application, particularly in terms of discounts and markdowns, and the need to balance other factors such as profitability, business conditions, and brand reputation.

In value-based pricing, the element of uncertainty is always present. It's impossible to predict customer behavior until a price is presented to them, and their reactions are observed. The classic approach is to make a demand forecast, but this simply masks the fact that demand is unknowable. It's uncertain. Therefore, the key to developing a better pricing strategy is to become better at assessing and minimizing risks and uncertainties.

Prescriptive AI enables you to make optimal decisions while accounting for uncertainty.



Prescriptive AI in Action

Event Network

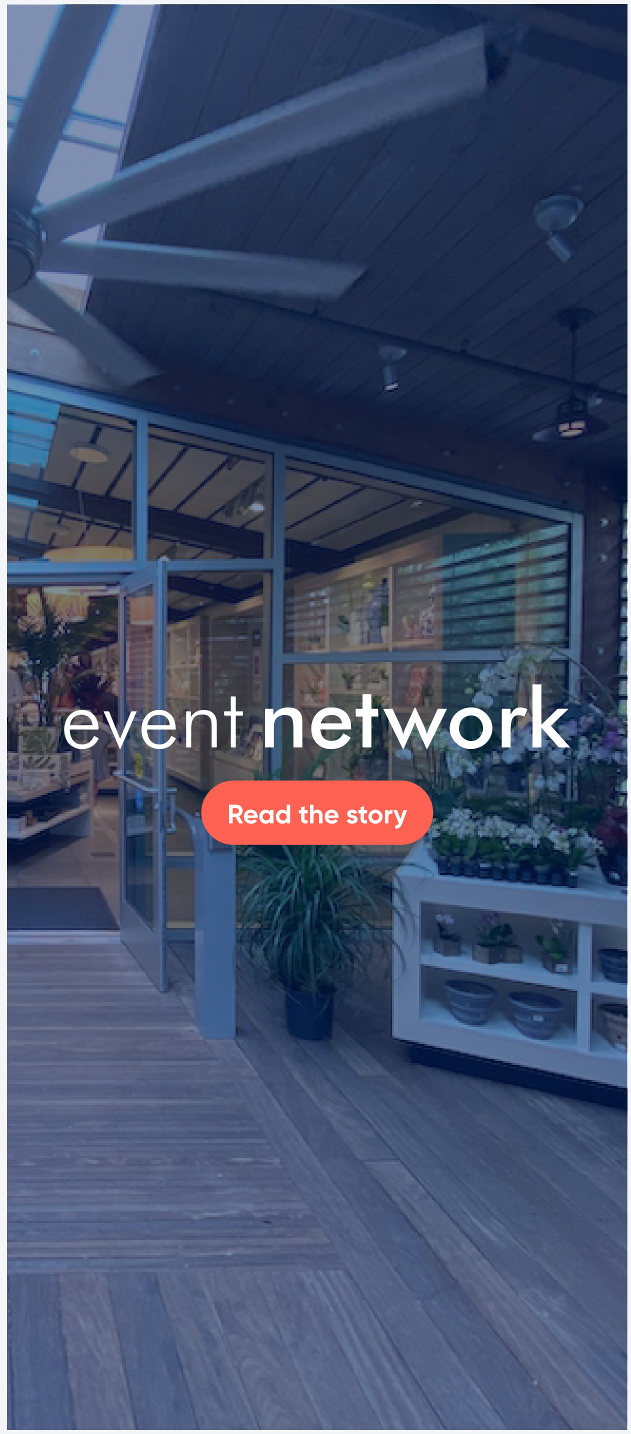
Event Network is the leading US operator of experiential retail with >100 stores. Traditionally used cost-plus approach to pricing new products and occasionally updated in-season. Could AI identify optimal prices even for new products with a short life cycle?

"From the very beginning, it was clear that the Evo pricing strategy would deliver above and beyond our expectations. The immediate impact on our bottom line was undeniable."

– Larry Gilbert, CEO - Event Network

Solution	Responsive prices using PriceAI & MarkdownAI, differentiating by product and location.
Impact	An immediate +5.5 extra margin points, accompanied by sustained growth. Generated substantial shareholder value and played a pivotal role in helping Event Network to ensure sustainable growth.

- 5.5 margin point increase
- 6% like-for-like-sales growth
- 2% per-customer sales increase
- 300+% increase in cumulative revenue from previous year



Where?

Where Do You Begin?

Start with the KPI you want to improve. A traditional approach to problem-solving typically involves a lengthy project. In the first phase, you outline what needs to be implemented, then spend time mapping it out, followed by more time for implementation, and finally, the project comes to an end. It can be a very protracted process, and anything that doesn't work or yield results remains after the project has concluded.

AI is a far more efficient model, it is an iterative approach and the benefits are exponential. The system learns over time and provides businesses with real-time, data-driven insights and recommendations to help them achieve their objectives. It is responsive to changes in the market and adjusts its recommendations accordingly. The machine can synthesize information such as disruptions, inflation, pandemics, or wars and feed it into the AI. So, while you will never be able to predict something like Covid, you will be able to react faster. This is the key to sustaining a competitive advantage.

Another key difference between an AI-driven approach and a traditional one is that its impact can be measured immediately. You can begin now with a small-first step and witness the results in real-time. The guideline is that it has to work for you now.

Once you set the goal, if you see that it's moving in the right direction toward meeting your specific objectives, then it is working. As AI is a learning system, it will continue to improve. If it doesn't work for you within a reasonable timeframe, say 3 to 6 months, it means the question, the 'what', is wrong and you need to adjust the strategy.

When?

When Should We Trust the Machine to Do the Work?

It's a common misconception that using AI means letting a machine handle all the work. This isn't the case. AI cannot replace human knowledge. Unlike traditional reporting or forecasting methods that automate manual tasks, such as manually compiling a report, the application of AI requires human expertise and knowledge.

Humans and machines excel at different activities. When it comes to developing a long-term strategy and fostering innovation, defining the right questions is more crucial than providing the correct answers, and this is best left to human capability. When it comes to price and inventory optimisation, machines can generate more accurate solutions to these problems that better align with customer needs.

AI cannot replace the role of the manager, instead, it demands that we rethink the role of the manager. The manager is no longer someone who has all the answers, but someone who asks the right questions. The manager decides which problems to give the machine to solve, and while the machine may generate effective solutions, the ability to frame a problem remains a distinctly human capability.

Who?

Who in the Organization Will Benefit from Using AI-Driven Business Analytics?

Who Should Be Responsible for AI Development in Your Organization?

Those who stand to benefit the most from the implementation of AI in the organization are those who oversee profit margins, inventory management, supply chain operations, pricing strategies, and various other critical business functions. A complex challenge arises here as the responsibility for purchasing business software typically falls on the IT department. This can present a barrier because prescriptive systems don't directly benefit IT, as they aren't responsible for inventory turnover or margin improvement.

This means that those who stand to gain the most from using the technology may not know how to procure it. The desire to 'try before you buy' can also present a barrier to purchase. It may be natural to want to test it, but it's not possible to 'test' a learning system.

So, who should be responsible for AI development in your organization?

The decision of whether to outsource it or keep it in-house is a complex decision, and there are several factors to consider. While developing AI capability in-house can provide companies with more control, it can also be an extremely costly and complex endeavor. Hiring AI talent and retaining skilled AI developers can also be extremely challenging. Another drawback of opting to keep AI development in-house is that it may limit access to the latest AI research and technology."

For most companies, outsourcing AI development is more beneficial because it provides access to a broader pool of AI talent and expertise, enables them to deploy AI capabilities more quickly, saves costs, and offers greater flexibility to scale up or down as needed. Consider why we opt to use Google search- its for the vast amount of information it provides us with, which would not be feasible in-house. No company, no matter how large, with the exception of perhaps Google or Facebook, has enough data expertise for participants to benefit exponentially.

Many organizations have developed an unhealthy relationship with data. They focus their efforts on acquiring a lot of data, but vast amounts of data alone cannot solve business problems. Some companies have spent millions and a considerable amount of time acquiring data to build a large database that they don't know what to do with, so what they end up with is a really nice server.

AI for business is not simply a product but an evolutionary approach to problem solving. It's a departure from the classic rule-based system to a system in which management becomes a leader capable of managing complexity.

Now what?

Competitive advantages are not permanent, and companies need to continually adjust, adapt, and evolve to avoid loss of competitive advantage.

Many organizations continue to operate in the same way in the name of risk management, when the key benefit of AI in business is risk reduction as it overcomes the limitations of traditional forecasting methods. AI doesn't just improve the forecast; it changes it.

AI is already here, and you have nothing to lose by introducing this technology into your business. Especially when you consider that the cost of inaction is very high, and the risk of starting is very low.

AI driven analytics can offer businesses a sustainable competitive advantage. AI is exploratory, you can begin with a small first step, or in other words:

> **"Start as fast as you can and then gradually accelerate."**

Learn more about how ToolsGroup solutions powered by **EvoAI** helps companies optimize decision-making for **greater efficiency, enhanced customer satisfaction,** and **better margins.**

Learn more