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WHAT'S THE POINT OF BUSINESS INTELLIGENCE?

In the last 15 years, big enterprises have invested heavily in information technology: ERPs, CRMs, GPS to track sales and deliveries, control equipment of mills, etc. In just a few years, organizations went from 'paper and pencil' to computers. Their investments allowed companies to not only increase their productivity and profitability, but also helped them build a huge data platform: sales, production, costs, raw material consumption, flow of goods and people, and so on. We call this phase the First Big Wave of IT Investment.

Once achieved, the Second Big Wave arrived: Business Intelligence (BI). In other words, once the data was there, we asked, how can this be used further?

BI software, tools, and analytics allowed organizations to create reports (sales, production, expenses) and key performance indicators (production per employee, sales per territory, cost per machine, and so forth). Analysis of data generated from internal systems to describe internal operations was a fantastic way for companies to get to know themselves better. At Fisher, the BI that allows companies to see themselves in the mirror is called "Internal BI." But companies began to realize that the world outside their gates should also be considered in all their studies, which ushered in the birth of "External BI."

Yes, it's very important to track cost data, extract reports, study it, and look for cost improvements. But this is not enough. One should see how this cost stands against competitors: if a 5% annual reduction is in line with the sector average, if the cost level allows the company to protect the business from a new competitor. In other words, aside from looking in the mirror, companies also need to look out the window at the world in which their businesses operate. Welcome to External BI!

External BI describes the more chaotic outside world of markets, customers, competitors, suppliers, and regulators – a world that is complex and constantly changing. The interaction of internal and external data is (or should be!) the basis of any decision-making process. After all, like Newton's Law, any action from a company will create reactions to the decision. And this must be considered and modeled.

I know the ideas presented in this article are common sense and even self-evident. Yet, somehow, not that obvious to all. We still have companies that cannot peel their eyes away from the mirror to look at the world beyond themselves and their traditional data comfort zones – even though external forces determine most of the success or failure that companies experience, making marketplace intelligence critical to success. And, this premise magnifies exponentially when we are talking about an industry that requires huge investment, is commoditized, profits on thin margins, and operates in a global market.

To contextualize the role of External BI, let's consider the following business case:

A small pulp producer (a mill) located in the northeast of the American continent is approached by a tissue client. Claiming pressure from a tissue retailer, the client asks for an additional discount. What is the REAL discount that the pulp producer should offer in light of potential competition from foreign lines? This pulp mill doesn't have a big line, nor does it have wood at cost levels comparable to Latin America. As we can see in the cost curve, it's indeed a high cost mill (Figure 1).

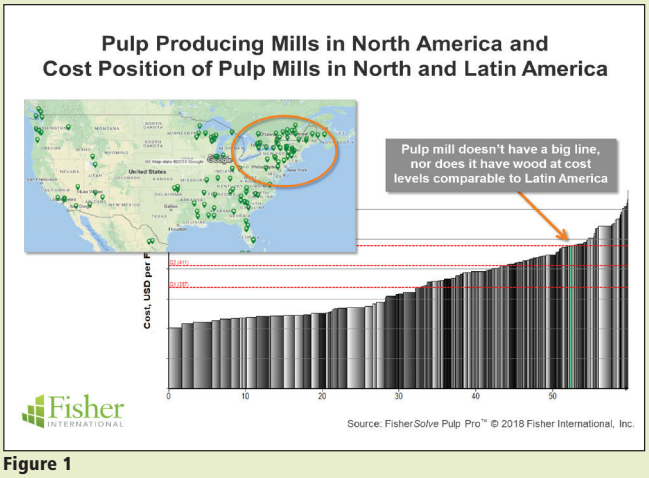

Figure 1

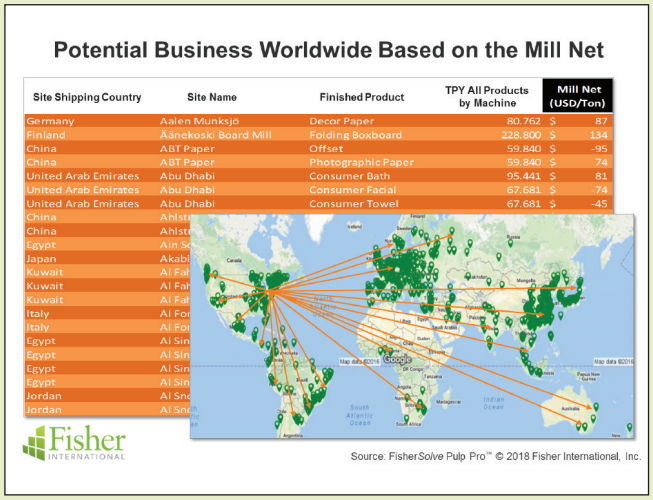

Figure 2

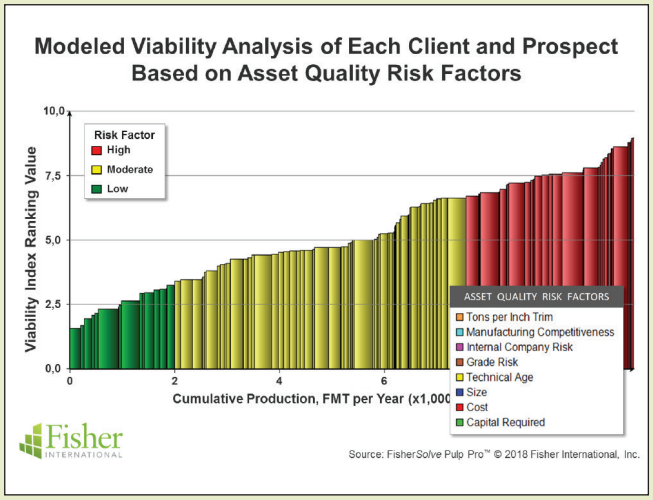

Figure 3

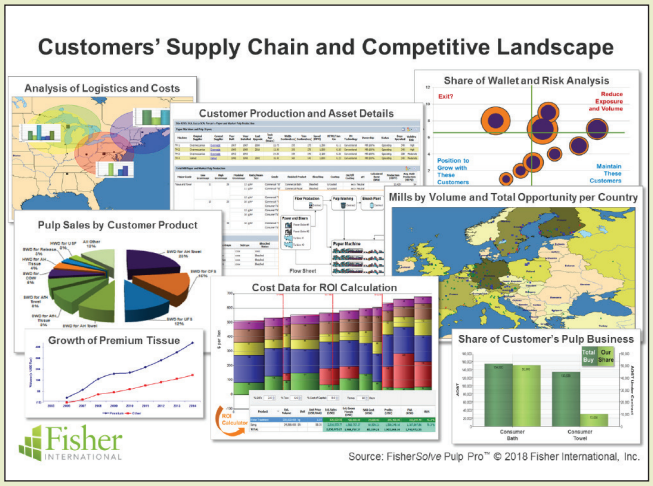

Figure 4

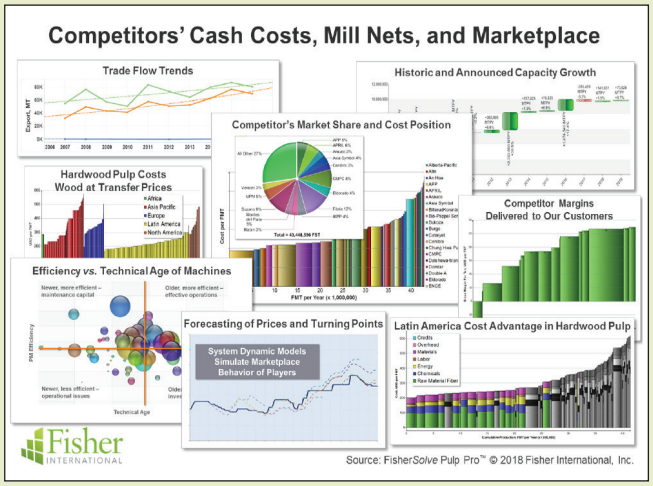

Figure 5

Typical analyses from Internal BI will reveal the company's own historical and current pulp production capacity, costs, pricing and discounts, sales volumes, demand cycles, inventory, etc. But External BI will inform the pulp producer about the position of customers and competitors. With External BI, the pulp producer can:

- *Create Mill Net Models for each possible customer: where else could the mill sell its pulp with the same or higher profitability? (Figure 2)*
- *Determine whether a potential client is viable in the long term (Figure 3)*
- *Understand the supply chain and assess growth in the market where the client participates, to inform the proposal process. In this case, is the request for a discount justified? Can a reduction in margins to satisfy the tissue retailer be supported by a growing market and increased volumes? (Figure 4)*
- *Consider cash cost and mill net for all competitors in the bid, new capacity announcements, freight costs, forecasts for tissue and pulp prices and price turning points. The list of questions you can ask is exhaustive and the answers that are unique to the organization's projects support the entire decision chain (Figure 5).*

With the project presented by this case, looking not only at the pulp producer's internal data, but also outside the gate and to the future, the pulp producer is able to establish how aggressive the commercial proposal should be, the likely discount ceiling for each potential competitor in the bid, the sales alternative with reduced long-term risk and better profitability.

External BI provides pulp producers insights about their competitors and their customers. When combined with the company's own sales data, it becomes a transformative resource for making decisions in the global marketplace. With it, companies can develop their own proprietary model to make decisions that maximize the profitability of their operation. ■