

The Insights-Driven Business

Insights-Driven Businesses Will Steal \$1.2 Trillion In 2020 — It's Time To Join Them

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July 27, 2016

Insights-Driven Businesses Will Take \$1.2 Trillion A Year By 2020

Report Excerpt

A new kind of company has formed that embeds analytics and software deeply into its operating model to be customer-obsessed.¹ As Tom Davenport predicted in 2007, these companies run faster and fleeter than you.² They capture more and better data to continuously derive “digital insights” that they test and implement in software to win, serve, and retain customers.³ We call these companies insights-driven businesses:

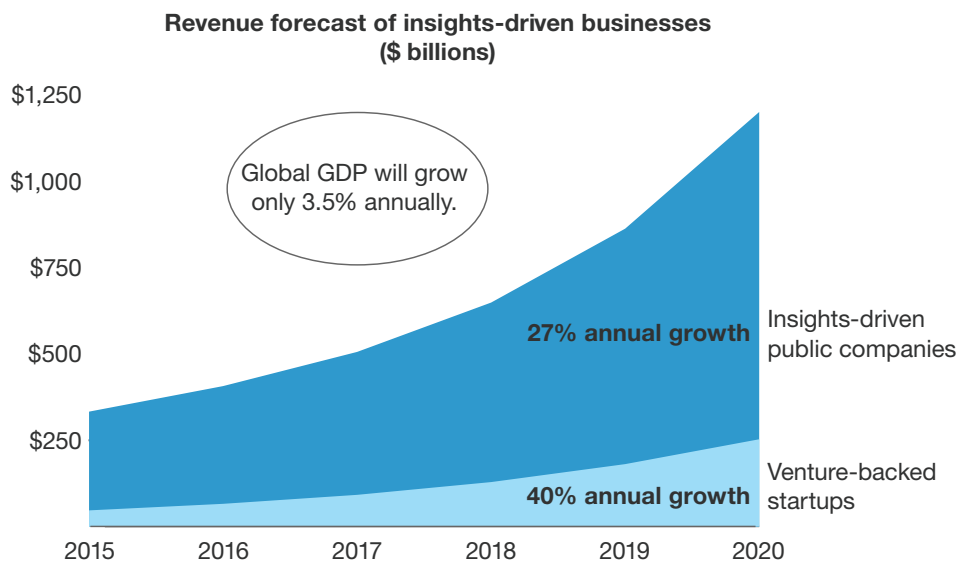
An insights-driven business harnesses and applies data and analytics at every opportunity to differentiate its products and customer experiences.

Why do you care? Because they are coming after your customers. We examined the valuation, revenue, and growth of public companies that are insights-driven as well as thousands of venture-backed startups, which are invariably insights-driven.⁴ We forecast that these insights-driven businesses will (see Figure 1):

- › **Increase their revenue from \$333 billion in 2015 to \$1.2 trillion by 2020.** Using data from PitchBook Data and Morningstar, we identified 40 insights-driven public companies, such as Baidu, Google, Netflix, Tesla Motors, and WisdomTree Investments. We also confirmed the role of insights in startups like Earnest, Flipkart, and Stitch Fix. We project their collective 2020 revenues at \$1.2 trillion.

- › **Grow at least eight times faster than global GDP.** Using conservative estimates, we forecast that these insights-driven public companies will grow 27% annually and the startups will grow 40% — much faster than the projected global 3.5% GDP growth. Why? Because they harness digital insights to optimize their products, services, and operations.
- › **Take this money from your customers and top line.** At least some of that \$1.2 trillion will come out of your pocket. The focus that insights-driven businesses place on winning, serving, and retaining customers means they are coming after your customers and your revenue! That's why being insights-driven matters: It's a competitive differentiator that will make or break your long-term success.

FIGURE 1 Growth Will Make Insights-Driven Business An Economic Tidal Wave By 2020



Note: The data point for public companies in 2015 is actual revenue; all other data points shown are estimates or projected figures.

Source: Economic Intelligence Unit, Morningstar, and PitchBook Data

How Insights-Driven Businesses Steal Your Customers

Insights-driven businesses bring insight, not just data, into every decision, and they know exactly how to use them for greatest advantage across the entire customer life cycle. For these firms, digital insights and what they do with them are their secret weapons to disrupt your market and steal your customers. Our research found that insights-driven businesses:

- › **Scale efficiently through automation.** Companies like Amazon scale their businesses through software and insight, not people. As a result, Amazon generates four times the revenue per employee compared with a benchmark competitor, Office Depot.⁵ For insights-driven firms, data analytics and software are two parts of the same digital strategy: Harness digital insights to optimize product and service delivery.
- › **Learn and adapt with lightning speed.** Insights-driven businesses use closed-loop learning processes to rapidly adapt their business and attack new markets.⁶ CA Technologies spins out sales insights to account managers in days, not months.
- › **Create sustainable barriers to entry.** Once an insights-driven business enters a market, it brings its data, analytics engine, and insight execution processes to erect powerful barriers. Simply having a head start in data sets can be an advantage.

Insights-Driven Businesses Are Different

Insights-driven businesses organize and operate differently to take advantage of data and analytics in every aspect of their products and operations. We interviewed 48 companies and drew on two years of related research to find out what it means to be insights-driven.⁷ Here's what we learned.

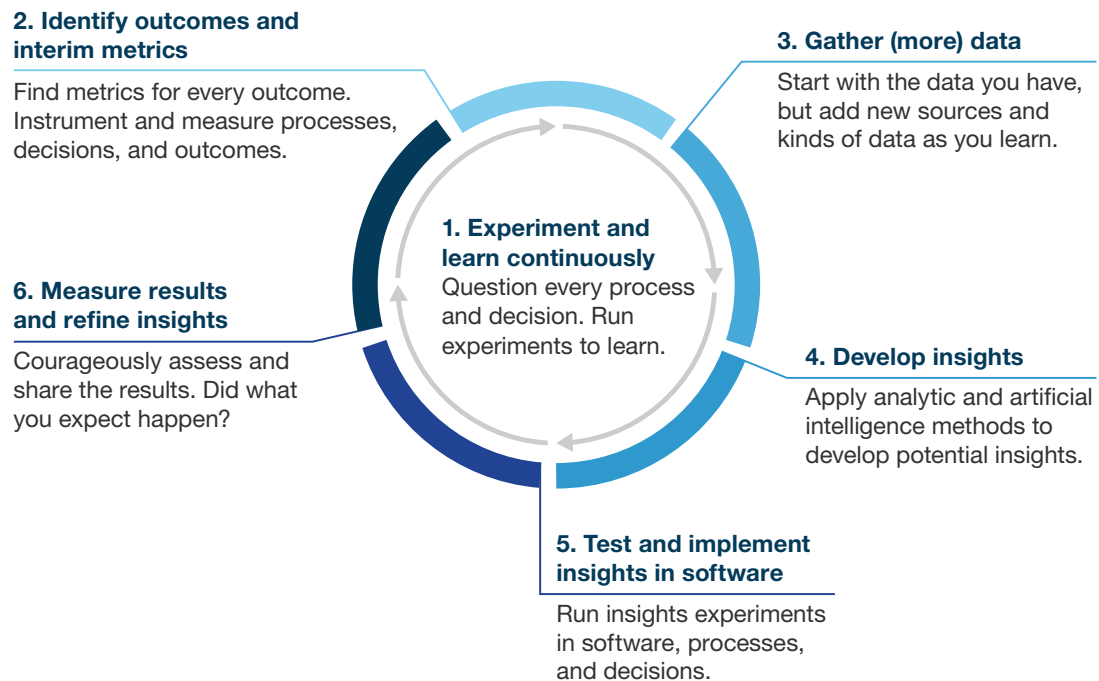
Insights-Driven Businesses Embed Insights In Every Action, Process, And Decision

Insights-driven businesses view digital insights as an asset — we called it a new “currency” — in every customer interaction and business process. Just as they optimize web experiences and customer acquisition, they optimize pricing, products, and partnership outcomes as well. Insights-driven businesses:

- › **Build a closed-loop insights process into every facet of their business.** Insights-driven businesses don't rely solely on customer insights, business intelligence, or technology management departments for analytics. Instead, they embed closed-loop insights processes into core business functions like marketing and sales, and also into specific processes like inventory management as Stitch Fix does, and basketball strategy as the Golden State Warriors do (see Figure 2).⁸

- › **Marry algorithms and expertise to continuously improve outcomes.** Algorithms are not a secret sauce; they are a model of the real world. If the algorithm says X and the expert says Y, then there's room to improve either the algorithm or human understanding.
- › **Make insights available so every employee can act with confidence.** Insights-driven businesses are better at democratizing data and insights. A collateral benefit is that with enough viewers, firms can quickly root out and fix problems in the data and algorithms.
- › **Look always to tap more — and more relevant — data.** Data is the red blood of an insights-driven business — there can never be enough flowing in the veins. Look always to tap more — and more relevant — data. For example, Red Roof Inn uses flight cancellation data to optimize its search marketing strategy to provide a phone number to the nearest property. Because its competitors will quickly sniff out and incorporate that into their own strategy, Red Roof Inn will have to keep adding fresh data and insights to stay ahead.⁹

FIGURE 2 Insights-Driven Businesses Operate Differently, In Closed-Loop Learning Processes



Insights-Driven Businesses Are Built Differently To Optimize Through Insights

To work differently, you must also be built differently. The insights-driven practitioners we spoke with attribute success to a fundamentally different approach to business. They:

- › **Drive insights from the top of the organization.** It's terribly difficult for a midlevel manager or functional head to create an insights-driven culture and practice alone — she will have to rely on too many other executives and systems that are out of her control. Insights-driven CEOs don't just demand accountability; they also commit resources to build analytically driven business models and organizations.
- › **Organize with business, analytics, and software skills on the same team.** Insights teams are composed of experts from business, marketing, or products working with data engineers, data scientists, and software developers. For example, LinkedIn combines expertise in data engineering, data science, and business knowledge on the same team to learn from each other.¹⁰ They test and learn continuously using agile techniques.
- › **Define and measure fine-grained outcome metrics.** Insights-driven businesses measure outcomes — and the success of interim steps leading to them. For example, Wargaming Group (WG Cells), a mobile gaming company, only builds a game once it has defined “victory conditions” that link a player's success in the game with dropping some coin. It changes its products based on insights derived from measuring interim player “victories” to drive revenue.

Four Examples Illustrate How To Become An Insights-Driven Business

To show you how to be insights-driven, here is how four organizations differentiate and win using insights (not just data). Earnest and Stitch Fix are newcomers, disrupting traditional industries with insights-driven business models. FC Midtjylland and The Washington Post are established enterprises that embrace insights-driven practices.

Newcomers Use Insights To Bring Digital Disruption To Nondigital Industries

A new generation of insights leaders is applying practices learned from first-generation digital disrupters like Amazon, Google, and Netflix to every industry:¹¹

- › **Earnest prices student loans more effectively to attract Millennial borrowers.** Earnest refinances its clients at a better price point using a customer's data and is not dependent on credit scores such as FICO. Earnest collects up to 100,000 data points per customer and measures and records loan officer actions in detail. Its success comes from the software automation used to gather data and measure action and from the human insights derived from loan officers, which it uses to train its models.

Best practice: Hire talent with deep analytics and software skills. Louis Beryl, cofounder and CEO at Earnest, told us that success requires more than just a better pricing algorithm than competitors relying solely on scoring systems like FICO. It also requires sophisticated software skills to harness and implement the insights. He makes this profile a priority in Earnest's talent recruiting.

- › **Stitch Fix marries algorithms and expertise to delight customers at lower cost.** Stitch Fix ships clothing to customers based not only on sophisticated algorithms but also on feeding what their employees know back into their algorithms. As a result, it can sell clothes in a highly personalized way and more efficiently than its competitors.

Best practice: Build an insights-driven culture from the top down. Chief algorithms officer Eric Colson, who learned his skills at Netflix, told us that improving Stitch Fix's systems with insights is never an ROI-based decision. The firm's founder understands that it competes on insights and ensures that a significant portion of its staff and investment are focused there.

FIGURE 3 Systems Of Insight Close The Loop Between Data And Effective Action



Established Organizations Master New Insights-Driven Chops

Few enterprises we spoke with have yet cultivated the breakout thinking and insights skills that newcomers have. But we did find some established organizations reinventing their processes and working on insights-driven fundamentals:

› **FC Midtjylland applies insights to go from the brink of bankruptcy to a championship.**

Danish football (soccer) club Midtjylland came from relative obscurity to win the 2015 national league championship by transforming its game through insights. The team measures and analyzes everything to optimize decisions on everything from kicking coaching, half-time team talks, set-piece plays (where half of their goals come from), and player selection.¹² The result is a steady stream of insights on how best to compete, similar to the now famous story of Major League Baseball's Oakland Athletics as documented in Moneyball.

Best practice: Question everything; measure everything. Majority shareholder Matthew Benham applied lessons he learned from Smartodds, a sports analytics innovator, to all decisions in his club. Nothing was off limits as he worked to transform the team with insights. The culture embeds measurement, testing, and learning into its operating model.¹³

› **The Washington Post harnesses insights for article and ad relevance.** The Washington Post has experienced record audience growth over the last year.¹⁴ One reason is the company's focus on measuring and understanding how readers connect and engage to deliver an optimal user experience. To increase engagement with The Post's content and improve ad relevance, Dr. Sam Han, director of big data and personalization, and his team analyze tens of millions of clicks every night to improve its relevance engine, one experiment at a time.

Best practice: Use continuous optimization to drive better operations. The Washington Post bakes measurement and insights into the heart of its digital transformation. Beyond digital customer engagement, The Post uses insights to improve newsroom workflow, give journalists an understanding of how readers engage with their work, and allow executives to make data-driven decisions about company strategy.¹⁵

Recommendations

Take These Four Steps Toward Your Insights-Driven Future

Digital insight is not solely the inheritance of upstarts — you must become insights-driven, too. Yes, it will be difficult in the face of organizational and data silos. CIOs can start by rethinking vague aspirations to become “data-driven” or exploit “big data” and follow these steps to become insights-driven:¹⁶

1. **Focus first where disruption lurks — in your digital business.** Insights-driven businesses will make most of their money in digital business models. You already embrace digital change; now layer an insights-to-execution process on top of your digital strategy to drive more revenue from insight.¹⁷
2. **Identify, elevate, and push out the insights resources you already have in place.** Be like Royal Bank of Scotland, which has a digital intelligence team that elevates and applies those insights-driven skills in product, marketing, and channel teams.¹⁸ One key is how you organize to be insights-driven. It's not enough to have insights skills in a center of excellence (CoE); use the CoE to sell, guide, and embed analytics and testing skills directly into your operating teams across the business.
3. **Unearth all the data, regardless of the effort.** Yes, it's a cliché. But it's also true: You can't be insights-driven unless you are courageous in pursuing all the relevant data. Not just the online data. All the data.
4. **Build the right insights partnerships — don't go it alone.** You probably won't own all the data, expertise, or technology. We expect most companies to work with a wide variety of insights services partners: industry specialists like Ugam or Zephyr Health, functional specialists like FICO or FusionOps, marketing service providers like Merkle or Wunderman, insights-as-service providers like IBM, business consultancies like Deloitte or KPMG, and business intelligence consultancies like Opera Solutions or Saama Technologies.¹⁹

What It Means

Being Insights-Driven Will Help You Thrive In A Postdigital World

CIOs must take note: Digital is no longer a separate thing — it has permeated every aspect of business. We call this new frontier the postdigital world, in which customers are entitled, digital distinctions have dissolved, companies have become customer-obsessed, and digital insights fuel business strategy.²⁰ Insights-driven businesses will swim like dolphins in the postdigital world, blending digital and nondigital insights to:

- › **Amplify and leverage the expertise of humans.** Many digital disruptors have over-pivoted toward data-driven decision-making; as a result, they forget that the most important insights often lie between the ears of employees. As practices evolve, the best insights-driven businesses will amplify the expertise of their employees with digital insight and bake that expertise back into their algorithms. Firms that master this will gain the benefits of advanced analytics without losing the human touch often necessary for great customer experience.

- › **Be helpful across channels.** Customers are contacting your business more often, but on digital channels.²¹ Insight-driven businesses will be better at infusing insight into these digital interactions, which will give them an advantage. How? By winning in customers' moments. Not only will they create more positive experiences, they will be able to deliver what customers need, in their moments of need, and convert those customer service touches into new sales. They will also be better equipped to pass insight between digital and physical channels, which means call center agents will become powerful salespeople too.
- › **Continually adapt and thrive.** Forrester predicts that the next 10 years will generate an order of magnitude more change than we have seen in the last 10 years.²² How will you cope? Insights-driven businesses will arm their employees with insight about changing customer habits and competitor weaknesses. Furthermore, they will be able to constantly experiment so they can test scenarios, learn, and adapt.

Endnotes

- ¹ The new customer-obsessed operating model required to win in the age of the customer is a hallmark of successful digital transformation. A fundamental reset of day-to-day operations is required. To learn about the four principles and six levers of customer obsession, see the "[The Operating Model For Customer Obsession](#)" Forrester report.
- ² Tom Davenport did yeoman's work when he articulated the importance of data and analytics to companies in his seminal book. Source: Thomas H. Davenport, *Competing on Analytics: The New Science of Winning*, Harvard Business Review Press, 2007.
- ³ An insight is not just data. It is new knowledge or understanding that may be gleaned from data analysis or results from people's inspiration. We use the term "digital insight" to mean an insight that has been codified so that it may be tested and implemented in software. We consistently find that it is digital insights that set apart insights-driven businesses: They know how to find, test, and implement insights in decisions, actions, and processes.
- ⁴ Our valuation was based on two classes of firms. First are 40 public companies that we deem to be insights-driven. We screened thousands of companies using data from Morningstar to pull companies with sustained 30% or more annual growth, then examined each one individually to decide if we think a substantial portion of their differentiation comes from exploiting insights. We also examined venture-backed companies at the sector level using data from PitchBook Data. In both cases, we used industry-standard value/revenue multiples and deeply discounted revenue growth projections.
- ⁵ Amazon generate \$966,922 in revenue per employee, compared to its benchmark competitor Office Depot, which generates \$252,714 per employee — a ratio of 3.8 to 1. Source: "Amazon Com Inc Sales per Employee," CSIMarket.com (<http://csimarket.com/stocks/singleEfficiencyet.php?code=AMZN>) and "Office Depot Inc Sales per Employee," CSIMarket.com (<http://csimarket.com/stocks/singleEfficiencyet.php?code=ODP>).
- ⁶ To continually refine customer experiences at scale, CIOs must seek to use data, analytics, testing, learning, and targeting techniques at every opportunity when customers interact to deliver the most appropriate experience — all at the right moment and within the right context. Forrester defines the practice of continuous optimization as an analytics-driven approach that seeks to leverage every customer interaction to evolve the understanding of the customer and that is in turn used to evolve and optimize current and future customer experiences. See the "[Transform Customer Experience With Continuous Optimization](#)" Forrester report.

⁷ Businesses are drowning in data but starving for insights. Worse, they have no systematic way to consistently turn data into action. This can't continue. Demanding customers and competitive pressures require firms to treat insights — not just data — as a business asset. To learn how CIOs can lead their firms to find, test, and codify digital insights in software, leading to more intelligent engagement and better decisions, see the [“Digital Insights Are The New Currency Of Business”](#) Forrester report.

Your business wants to grow its customer base and understands that customers will come only if experiences improve. Firms that master turning insights into action form systems of insight to harness data, find the valuable insights, and implement them so they drive action that not only improves but also transforms customer experiences. To learn how this business and technology approach can improve customer experience, see the [“Transform Customer Experiences With Systems Of Insight”](#) Forrester report.

Companies must personalize digital experiences using all available insights — not just clickstreams and thinly defined profiles. To learn how to extend digital experience platforms with systems of insight, see the [“Digital Insights Will Power Great Digital Experiences”](#) Forrester report.

Data-driven hopes are high. Forrester's Q3 2015 Global State Of Strategic Planning, Enterprise Architecture, And PMO Online Survey indicates that a large majority of enterprise architecture professionals aspire to make their firms data-driven, and vendors everywhere claim to be able to help them do it. But data and analytics technology talk won't deliver what your business craves — insight-driven actions that change outcomes you care about. To learn more, see the [“Brief: Why Data-Driven Aspirations Fail”](#) Forrester report.

Forrester analyzed over 2,600 responses in Forrester's Global Business Technographics® Data And Analytics Survey, 2015 to uncover the habits of insights-driven cultures. To learn more about these trends, see the [“Insights-Driven Businesses See Better Results”](#) Forrester report.

⁸ Forrester defines a system of insight as the business discipline and technology to harness insights and consistently turn data into action. A system of insight is an insights team, working in an insight-to-execution process, using an insights platform to deliver digital insights to the point of decision in software. To learn more about this core foundational concept, see the [“Digital Insights Are The New Currency Of Business”](#) Forrester report.

⁹ Users are discovering brands across many types of media, while marketers still focus their acquisition efforts on search. To stay in the discovery path of their multichannel customers, search marketers must broaden their charter to champion cross-channel discovery marketing. For more details on how Red Roof Inn used customer context to evolve its traditional paid search program into a multichannel discovery effort, see the [“Transition From Search To Discovery Marketing”](#) Forrester report.

¹⁰ Managers as well as data and technology professionals are all enthralled with the promise of big data and disillusioned with its complexity. Strata-Hadoop World 2015 in San Jose, California — the largest big data conference in the world — was a microcosm of these forces. “Digital Haves” took the opportunity to show off their chops at the conference. Enterprises can learn a lot from LinkedIn's team-based approach for turning insight into action or Netflix's big data platform team. To learn more about LinkedIn's approach, see the [“Critical Big Data Insight From Strata 2015”](#) Forrester report.

¹¹ For example, Eric Colson from Stitch Fix came from Netflix. Louis Beryl of Earnest directly referenced what he was learning from Eric's work at Stitch Fix. Our point is that one look at the pedigrees of insights-driven leaders firmly traces a lineage back to the pioneers.

¹² Source: Sean Ingle, “How Midtjylland took the analytic route towards the Champions League,” The Guardian, July 27, 2015 (<https://www.theguardian.com/football/2015/jul/27/how-fc-midtjylland-analytical-route-champions-league-brentford-matthew-benham>).

¹³ Source: Jason Burt, “FC Midtjylland vs Manchester United: Why Brentford are hoping United lose against the odds,” The Telegraph, February 17, 2016 (<http://www.telegraph.co.uk/sport/football/teams/manchester-united/12160797/FC-Midtjylland-vs-Manchester-United-Why-Brentford-are-hoping-United-lose-against-the-odds.html>).

- ¹⁴Source: Interviews with IT executives at The Washington Post in March 2016; “The Washington Post continues to see explosive growth, breaks yet another record with 71.6 million users in November,” The Washington Post press release, December 14, 2015 (<https://www.washingtonpost.com/pr/wp/2015/12/14/the-washington-post-continues-to-see-explosive-growth-breaks-yet-another-record-with-71-6-million-users-in-november/>).
- ¹⁵Source: Interview with Dr. Han’s colleague Beth Diaz, vice president, audience development and analytics, The Washington Post, as well as with his boss, Shailesh Prakash, CIO, The Washington Post.
- ¹⁶Data-driven hopes are high. Forrester’s Q3 2015 Global State Of Strategic Planning, Enterprise Architecture, And PMO Online Survey indicates that a large majority of enterprise architecture professionals aspire to make their firms data-driven, and vendors everywhere claim to be able to help them do it. But data and analytics technology talk won’t deliver what your business craves — insight-driven actions that change outcomes you care about. To learn more about why data driven thinking is often flawed, see the “[Brief: Why Data-Driven Aspirations Fail](#)” Forrester report.
- ¹⁷Insights-to-execution is the process component of a system of insight. It is the consistent means insights teams use to gather relevant data, find or refine insights, test and implement insights in software, then measure and learn. Layering an insight-to-execution on your digital strategy means building into your digital investments a process that drives the resulting capabilities with digital insight.
- ¹⁸Continuous optimization remains largely aspirational. But there are examples of programs that are well on their way to optimizing a large proportion of their customer interactions and thereby driving significant business value through improved customer experiences. To learn more about how the Royal Bank of Scotland looked at internal resources, see the “[Transform Customer Experience With Continuous Optimization](#)” Forrester report.
- ¹⁹Concerned with time-to-market and inspired by new cloud models, business and technology decision-makers increasingly look to service providers for relevant insights that they can apply directly to their business processes. To learn more about this new market and key players in the space, see the “[Insights Services Disrupt The Data And Analytics Market](#)” Forrester report and see the “[Vendor Landscape: Insights Service Providers](#)” Forrester report.
- ²⁰We’ve entered a new world order where entitled customers integrate digital fluidly into physical experiences and marketing practices haven’t kept up. Every marketer will gradually go postdigital with capable companies facing urgent circumstances shifting first. As they do, marketers will relinquish old assumptions that will create algorithmic angels, new agency relationships, and more quality content. The three prescriptions for postdigital — be human, be helpful, be handy — are a good framework for investing to become insights-driven. See the “[Thriving In A Post-Digital World](#)” Forrester report.
- ²¹Customers are increasingly using web and mobile as a first point of contact with customer service organizations. To learn more about this trend and how to align operations with customer expectations to garner their satisfaction and long-term loyalty, see the “[Your Customers Don’t Want To Call You](#)” Forrester report.
- ²²Over the past 10 years, the forces that have placed us in the age of the customer have stimulated a rise in novel behavior among consumers. Forrester defined and examined the phenomenon of hyperadoption, which not only means that customers are adopting new technology-assisted behaviors at a blinding pace, they are dropping behaviors that don’t work for them just as fast. This change in how customers think plus new waves of technology change such as the internet of things and artificial intelligence will unleash new waves of innovation unlike anything we have seen. See the “[Will People Really Do That?](#)” Forrester report.

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