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Big Decisions and Small: When Analytical Pioneers Go Awry

By Thomas H. Davenport

The corporate news of late features a couple of analytical pioneers, Caesars Entertainment and Tesco PLC, that have fallen on hard times. Caesars did a complicated restructuring to reduce debt, and some of its casino properties filed for Chapter 11. Tesco, the UK-based retailer, has been suffering for years because of overexpansion, the wrong mix of store types for the economy, and ill-advised ventures into banking and technology.

Wayne Parry/AP Photo
Caesars Atlantic City, one of the two Atlantic City N.J. casinos included in a bankruptcy filing made on Thursday Jan. 15. 2012 by a unit of Caesars Entertainment.

Both companies were analytical pioneers, using customer data to understand buying behaviors intimately and target promotions. Both had data-driven leaders—Gary Loveman, the former Harvard Business School professor who still leads Caesars, and Sir Terry Leahy (I wrote about him earlier), who was Tesco CEO in 2011, largely before things started to fall apart. Why didn't their analytical decision-making save them?

My friend and "fellow fellow" at the MIT Center for Digital Business, Michael Schrage, wrote a (perhaps overly) dramatic blog post suggesting that Tesco's analytics were at the heart of its problem:

How damning; how daunting; how disturbing for any and every serious data-driven enterprise and marketer. If true, Tesco's decline present a clear and unambiguous warning that even rich and data-rich loyalty programs and analytics capabilities can't stave off the competitive advantage of slightly lower prices and a simpler shopping experience. Better insights, loyalty and promotion may not be worthless, but they are demonstrably worth less in this retail environment.

I'm surprised that Mr. Schrage hasn't written about Caesars yet in the same tone.

But analytics aren't really the problem at Caesars and Tesco. It's still useful to know your customers, reward the most loyal ones, and target promotions based on what customers actually want. Caesars and Tesco still do a good job of getting those small decisions right. It's the big decisions that don't involve data that have caused them problems.

Big decisions are typically one-off calls that don't involve data because they involve choices that companies haven't made before. They're decisions about whether to develop completely new products, whether to enter completely new markets, or whether to take on a completely new financial structure. A.G. Lafley of Procter & Gamble calls such decisions "big swings," and he says you only get a few of them during your tenure as CEO.

Both Caesars and Tesco have had problems with their big swings over the last several years. Caesars swung and missed on two big ones—the decision to take on about $30 billion in debt in a leveraged buyout, and the decision not to buy a property in Macau. When the economy turned down the company was unable to pay down the debt fast enough, and the Chinese gambling center turned out to be the growth engine for the entire industry—except for Caesars.

Tesco decided wrongly on several big swings as well—entering the U.S. market with its Fresh & Easy chain (which, like Caesars, declared bankruptcy), building hypermarkets outside of city centers in the UK, and jumping into non-grocery businesses that taxed management attention.

None of these decisions had been taken in the past by these companies, so no data was available on how they would turn out. I am sure they all involved some analysis, but it is a bit difficult for anyone to get good data about the future. At Caesars, in particular, I know there was lots of analysis about the Macau decision. Mr. Loveman and his colleagues tried to figure out a way to justify the $900 million license for Macau, but their analyses yielded only about $650M in potential value. They didn't have any way to anticipate the fantastic growth in the Macau market. Mr. Loveman now estimates that the license was probably worth $2 billion.

Both the leveraged buyout at Caesars and the big expansion at Tesco were probably a bit risky from the start. Some LBOs have worked out well, but the track record on the big ones is not that great. Mr. Loveman once told me that his analysis team had done the numbers on the basis of the worst possible economic conditions they could imagine, but then reality turned out to be much worse. That doesn't seem unreasonable, but borrowing $30B just before a downturn doesn't seem like the best decision ever. Nor does expanding into a highly competitive market like the U.S. with a relatively new grocery concept—small but expensive local markets in the wide-open Western U.S.

One could argue that these "big swing" decisions are as much a matter of luck as anything else. Perhaps some leaders have a better ability to anticipate the future than others, but I have never personally consulted fortune tellers, and don't really believe in that ability. Someone who has a history of making big decisions well might stumble on the next one.

Ideally, leaders would be able to inspire their organizations to use analytics on the small decisions, and know when to depart from the analytics on the big decisions. But if I invested in individual companies (which I don't, because I can't anticipate their specific futures) I would back leaders who I know will make the small decisions well. Making small decisions well is based on science; making big decisions well is based on gambling.

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