

Part I:  
Complex Business Problems



# 1 Introduction

“Like all Holmes’s reasoning, the thing seemed simplicity itself when it was once explained.”

*The Stock-Broker’s Clerk*

“Before turning to ... matter which present the greatest difficulties, let the inquirer begin by mastering more elementary problems.”

*A Study in Scarlet*

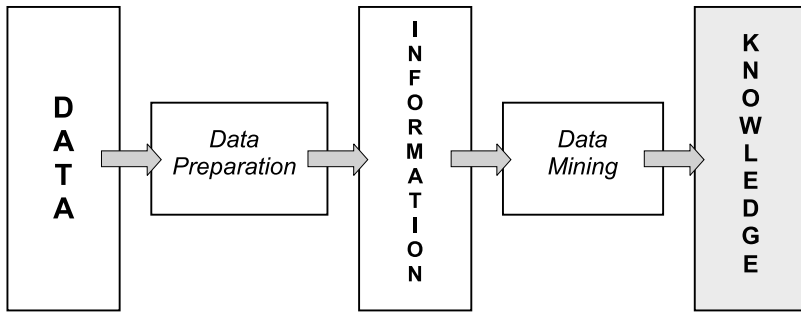
“*The answer to my problem is hidden in my data... but I cannot dig it up!*” This popular statement has been around for years as business managers gathered and stored massive amounts of data in the belief that they contain some valuable insight. But business managers eventually discovered that raw data are rarely of any benefit, and that their real value depends on an organization’s ability to analyze them. Hence, the need emerged for software systems capable of retrieving, summarizing, and interpreting data for end-users.

This need fueled the emergence of hundreds of *business intelligence* companies that specialized in providing software systems and services for extracting *knowledge* from raw data. These software systems would analyze a company’s operational data and provide knowledge in the form of tables, graphs, pies, charts, and other statistics. For example, a business intelligence report may state that 57% of customers are between the ages of 40 and 50, or that product X sells much better in Florida than in Georgia.<sup>1</sup>

Consequently, the general goal of most business intelligence systems was to: (1) access data from a variety of different sources; (2) transform these data into information, and then into knowledge; and (3) provide an easy-to-use graphical interface to display this knowledge. In other words, a business intelligence system was responsible for collecting and digesting data, and presenting knowledge in a friendly way (thus enhancing the end-user’s ability to make good decisions). The following diagram illustrates the processes that underpin a traditional business intelligence system:

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<sup>1</sup> Note that *business intelligence* can be defined both as a “state” (a report that contains knowledge) and a “process” (software responsible for converting data into knowledge).



Although different texts have illustrated the relationship between data and knowledge in different ways, the distinction between data, information, and knowledge is quite clear:

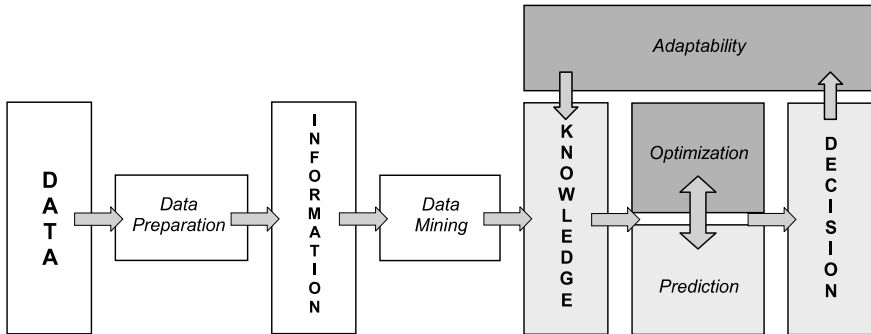
- *Data* are collected on a daily basis in the form of bits, numbers, symbols, and “objects.”
- *Information* is “organized data,” which are preprocessed, cleaned, arranged into structures, and stripped of redundancy.
- *Knowledge* is “integrated information,” which includes facts and relationships that have been perceived, discovered, or learned.

Because knowledge is such an essential component of any decision-making process (as the old saying goes, “*Knowledge is power!*”), many businesses have viewed knowledge as the final objective. But it seems that knowledge is no longer enough. A business may “know” a lot about its customers – it may have hundreds of charts and graphs that organize its customers by age, preferences, geographical location, and sales history – but management may still be unsure of what decision to make! And here lies the difference between “decision support” and “decision making”: all the knowledge in the world will not guarantee the right or best decision.

Moreover, recent research in psychology indicates that widely held beliefs can actually hamper the decision-making process. For example, common beliefs like “the more knowledge we have, the better our decisions will be,” or “we can distinguish between useful and irrelevant knowledge,” are not supported by empirical evidence. Having more knowledge merely increases our confidence, but it does not improve the accuracy of our decisions. Similarly, people supplied with “good” and “bad” knowledge often have trouble distinguishing between the two, proving that irrelevant knowledge decreases our decision-making effectiveness.

Today, most business managers realize that a gap exists between having the right knowledge and making the right decision. Because this gap affects management’s ability to answer fundamental business questions (such as “What should be done to increase profits? Reduce costs? Or increase market share?”), the future of business intelligence lies in systems that can provide answers and recommendations, rather than mounds of knowledge in the form of reports. *The future of business intelligence lies in systems that can make decisions!* As a result, there is a new trend emerging in the marketplace called *Adaptive Business Intelligence*.

In addition to performing the role of traditional business intelligence (transforming data into knowledge), Adaptive Business Intelligence also includes the decision-making process, which is based on prediction and optimization:



While *business intelligence* is often defined as “a broad category of application programs and technologies for gathering, storing, analyzing, and providing access to data,” the term *Adaptive Business Intelligence* can be defined as “the discipline of using prediction and optimization techniques to build self-learning ‘decisioning’ systems” (as the above diagram shows). Adaptive Business Intelligence systems include elements of data mining, predictive modeling, forecasting, optimization, and adaptability, and are used by business managers to make better decisions.

This relatively new approach to business intelligence is capable of recommending the best course of action (based on past data), but it does so in a very special way: An Adaptive Business Intelligence system incorporates prediction and optimization modules to recommend near-optimal decisions, and an “adaptability module” for improving future recommendations. Such systems can help business managers make decisions that increase efficiency, productivity, and competitiveness. Furthermore, the importance of *adaptability* cannot be overemphasized. After all, what is the point of using a software system that produces sub par schedules, inaccurate demand forecasts, and inferior logistic plans, time after time? Would it not be wonderful to use a software system that could *adapt* to changes in the marketplace? A software system that could *improve* with time?

The concept of adaptability is certainly gaining popularity, and not just in the software sector. Adaptability has already been introduced in everything from automatic car transmissions (which adapt their gear-change patterns to a driver’s driving style), to running shoes (which adapt their cushioning level to a runner’s size and stride), to Internet search engines (which adapt their search results to a user’s preferences and prior search history). These products are very appealing for individual consumers, because, despite their mass production, they are capable of adapting to the preferences of each unique owner after some period of time.

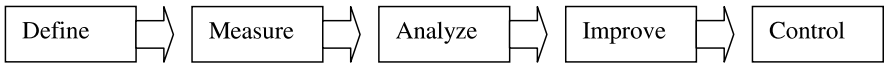
The growing popularity of adaptability is also underscored by a recent publication of the US Department of Defense. This lists 19 important research topics for the next decade and many of them include the term “adaptive”: *Adaptive* Coordi-

nated Control in the Multi-agent 3D Dynamic Battlefield, Control for *Adaptive* and Cooperative Systems, *Adaptive* System Interoperability, *Adaptive* Materials for Energy-Absorbing Structures, and Complex *Adaptive* Networks for Cooperative Control.

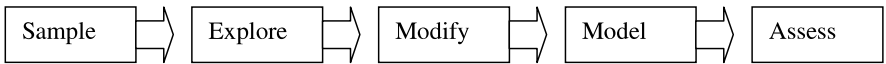
For sure, adaptability is here to stay. It is a vital component of any intelligent system, as it is hard to argue that a system is “intelligent” if it does not have the capacity to adapt. Moreover, modern definitions of natural and artificial intelligence include the term “adaptive.” For humans, the importance of adaptability is obvious: our ability to adapt was a key element in the evolutionary process. In the case of artificial intelligence, consider a chess program capable of beating the world chess master: Should we call this program intelligent? Probably not. We can attribute the program’s performance to its ability to evaluate the current board situation against a multitude of possible “future boards” before selecting the best move. However, because the program cannot learn or adapt to new rules, the program will lose its effectiveness if the rules of the game are changed or modified. Consequently, because the program is incapable of learning or adapting to new rules, the program is not intelligent.

The same holds true for any expert system. No one questions the usefulness of expert systems in some environments (which are usually well defined and static), but expert systems that are incapable of learning and adapting should not be called “intelligent”! Some expert knowledge was programmed in, that is all.

It is not surprising that the fundamental components of Adaptive Business Intelligence are already emerging in other areas of business. For example, the *Six Sigma* methodology is a great example of a well-structured, data-driven methodology for eliminating defects, waste, and quality-control problems in many industries. This methodology recommends the following sequence of steps:



Note that the above sequence is very close “in spirit” to part of the previous diagram, as it describes (in more detail) the adaptability control loop. Clearly, we have to “measure,” “analyze,” and “improve,” as we operate in a dynamic environment, so the process of improvement is continuous. The SAS Institute proposes another methodology, which is more oriented towards data mining activities. Their methodology recommends the following sequence of steps:



Again, note that the above sequence is very close to another part of our diagram, as it describes (in more detail) the transformation from data to knowledge. It is not surprising that businesses are placing considerable emphasis on these areas, because better decisions usually translate into better financial performance. And

better financial performance is what Adaptive Business Intelligence is all about. Systems based on Adaptive Business Intelligence aim at solving real-world business problems that have complex constraints, are set in time-changing environments, have several (possibly conflicting) objectives, and where the number of possible solutions is too large to enumerate. Solving these problems requires a system that incorporates modules for prediction, optimization, and adaptability. In the following chapters of this book, we will discuss these modules in detail, and see how they are combined to create an Adaptive Business Intelligence system.

Adaptive Business Intelligence

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