Data Monetization:
Lessons from a Retailer’s Journey

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Executive Summary

Data monetization is when the intangible value of data is converted into real value, usually by selling it. Data may also be monetized by converting it into other tangible benefits or by avoiding costs. Three current IT trends are enabling businesses to achieve the previously elusive goal of data monetization: big data, business intelligence and analytics (BI&A), and cloud computing. Potential buyers of an organization’s data include a direct supplier, an upstream supply-chain partner, a data aggregator, an analytics service provider or even a competitor.

Three Pathways to Data Monetization

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<tr>
<th>Technical Capability</th>
<th>Analytical Capability</th>
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<td>Low</td>
<td>Low</td>
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<td>Acquire (buy) data to leverage your analytical capability</td>
<td>Build both capabilities internally or hire a third party</td>
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<td>Monetize and dig deeper collectively as partners</td>
<td>Exploit suppliers’ BI&amp;A</td>
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Data monetization requires high technical data capabilities (the hardware, software and network capabilities that enable the collection, storage and retrieval of data) and high analytical capabilities (the mathematical and business analytical knowledge needed to exploit the data). If both capabilities are low, then a company has three potential pathways to transition to the high capabilities that will enable it to monetize its data.

Pathway 1: Higher Risk and High Reward. This direct pathway can be riskier as it requires simultaneously building both technical (data) and analytical capabilities, and requires the largest initial investment of any of the pathways. While costly, following this pathway will quickly position a company to be ready for monetizing its data and collaborating with partners.

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1 The full article is published in the December 2013 issue of MIS Quarterly Executive, available online at www.misqe.org.
Pathway 2: Build Analytical Capability First. With this pathway, a company develops its analytical (human) capabilities first. However, to reach the point where it can demonstrate the value of its big data and thus pave the way to data monetization, it may also have to expand its technical data infrastructure capability.

Pathway 3: Build Technical Data Infrastructure First. With this pathway, a company first extends or outsources its technical data infrastructure to produce an attractive collection of data that can be sold to supply-chain partners. This pathway enables a company to more quickly monetize its data and possibly avoid some analytical costs by leveraging the analytical capabilities of its partners rather than developing the analytical capability in-house.

A Four-Stage Monetization Journey

The full article describes the case of an anonymous major U.S. drug retailer that followed Pathway 3. Its four-stage data monetization journey has resulted in its data being made available to supply-chain partners, which provide much of the analytical capability.

Stage 1: Building BI&A Capabilities. The retailer implemented a data warehouse with basic analytical tools. Its analytical capability at this stage was limited and internally focused.

Stage 2: Connecting to and Sharing Information with Suppliers. In Stage 2, the retailer improved its technical capability by developing a supplier portal (hosted by a third-party analytics firm) that allowed it to share information with supply-chain partners.

Stage 3: Monetizing Data by Charging for it. The retailer started selling its data to suppliers via its supplier portal.

Stage 4: Further Monetizing Data and Avoiding Analytical Costs by Leveraging Suppliers’ Resources. The retailer leveraged its suppliers’ analytical capabilities and thus avoided some of the costs of its analytical function. This stage continues to the present day.

Lessons Learned

Consider How Creating and Sharing Data Will Change Relationships and Business Models. Data monetization creates a new business model. The company’s data is not only used to run the business, but also becomes a digital product the company can use to generate revenue and cover the costs associated with creating and gathering the data. Leveraging partners’ analytical capabilities introduces a new era of informational collaboration among supply-chain partners.

Identify Where You Currently Are in the Data Monetization Journey and Where You Want to End Up. The ideal end state of data monetization will result in deeper insights, a new revenue stream, a reduction in infrastructure and analysis costs, and trusted use of data by partners. Achieving this ideal state requires preparing your data for sale, assessing the need for value-adding third parties to join the data monetization ecosystem, marketing your data and challenging your supply-chain partners to get onboard, avoiding some analytical costs by leveraging partners’ analytical resources, and recognizing and rewarding your top-performing partners.

Develop Contracts to Ensure Adherence to Data Monetization Policies. Contracts, non-disclosure agreements and data-sharing and -purchase agreements, will be needed with supply-chain partners that purchase the data. These contracts restrict the use of the shared or purchased data to specific purposes.

Nurture Trust Between the Involved Parties. Trust can lower the contracting cost and conflict level required to reach a data-purchase agreement. The progression from trust based on written agreements to trust based on beliefs and shared values contributes to the formation of a collaborative relationship in which mutual benefits are considered by the parties involved.

The case described in the full article demonstrates that getting direct monetary value from a company’s data is no longer elusive. Data analysis tools and cloud computing have paved the way to monetizing a company’s data. By building technical and analytical capabilities and connecting with its suppliers, the retailer in the case created a digital ecosystem that enabled it to monetize its data by offering suppliers real-time access to its data. It minimized its analytical costs by leveraging the suppliers’ well-established technical and analytical capabilities. Joint benefits emerged from this new relationship in the form of a new revenue stream and a cost-sharing mechanism for the retailer.