

Chapter 2

What is Competitive Intelligence and Why Should You Care about it?

2.1 What is Competitive Intelligence?

There are a lot of definitions of Competitive Intelligence (CI), or CI as we will call it. This is the one we prefer:

Competitive Intelligence (CI) involves the use of public sources to develop data on competition, competitors, and the market environment. It then transforms, by analysis, that data into [intelligence]. Public, in CI, means all information you can legally and ethically identify, locate, and then access (McGonagle and Vella 2002, p. 3).

CI is also called by a lot of other names: competitor intelligence, business intelligence, strategic intelligence, marketing intelligence, competitive technical intelligence, technology intelligence, and technical intelligence. The most common difference among them is that the targets of the intelligence gathering differ. However, what those who are developing it all do is essentially the same:

- They identify the information that a decision-maker needs on the competition, or the competitive environment;
- They collect raw data, using legal and ethical means, from public sources;
- They analyze that data, using any one of a wide variety of tools, converting it into intelligence, on which someone can take action (“actionable”); and
- They communicate the finished intelligence to the decision-maker(s) for their use.

To understand CI, you must first clearly understand what is meant by “public”, that is, where the raw data you will need is located. The term is to be taken in its very broadest sense—it encompasses much more than studies that the US Department of Commerce releases or what you can find reported in *The Chicago Tribune*. “Public” in CI is not equivalent to published; it is a significantly broader concept.

In CI, public encompasses all information you can legally and ethically identify, locate, and then access. It ranges from documents filed by a competitor as a part of a local zoning application to the text of a press release issued by a competitor’s marketing consultant describing its client’s proposed marketing strategy,

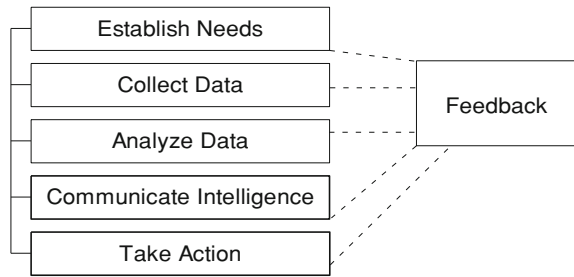
where the marketing firm also extols the virtues of its contributions to the design of a new product and the related opening of a new plant. It includes the web-cast discussions between senior management and securities analysts, as well as the call notes created by your own sales force.

Please keep in mind that CI is not just aggregating the results of a Google.com online search. That is collecting data. Admittedly, you do have to determine what you are searching for before you start, but using Google (or any other search engine—we are not playing favorites here) is just a way of picking out potentially interesting bits of data to look at from billions of available bits of data. The vast production of search engines is a classic illustration of the fact that data is not the same as intelligence. Intelligence is refined from data and is actionable. It all too often gets lost in a blizzard of raw data.

The CI process is usually formally divided by CI professionals into five basic phases, each linked to the others by a feedback loop. We are describing them to you because some, but not all, of what you will do includes some of these phases. Also, when you read further about CI, you will often find authors referring to the “CI Cycle”. These phases, making up what CI professionals call the CI cycle, are—

- *Establishing the CI needs.* This means both recognizing the need for CI and defining what kind of CI the end-user needs. It entails considering what type of issue (strategic, tactical, marketing, etc.) is motivating the assignment, what questions the end-user wants to answer with the CI, who else may also be using the CI, and how, by whom and when the CI will ultimately be used.
- *Collecting the raw data.* First, a CI professional translates the end-user’s needs into an action plan, either formally or informally. This usually involves identifying what questions need to be answered, and then where it is likely that he/she can collect the data needed to generate the answers these questions. The CI professional has to have a realistic understanding of all significant constraints, such as time, financial, organizational, informational, and legal. Then he/she can identify the optimal data sources, that is, those that are most likely to produce reliable and useful data, given the goal and the constraints. From there, the collection begins, both of secondary and primary data.
- *Evaluating and analyzing the raw data.* In this phase, the data that was collected is evaluated and analyzed, and is transformed into useful CI. That may be done by the person doing the collection or by a separate CI analyst. In practice, there are always two ways in which analysis is used in the entire process. The first is the use of analysis to make a selection, such as deciding which of a dozen news articles is most important to read. The second is the use of analysis to add value to one or more pieces of data. That would mean, for example, adding a statement to a summary of an article indicating *why* and *how* its contents are important to the end-user. While CI analysts provide both types of analysis, end-users most frequently only regard the latter process as really being analysis. Of course this is not true. If you do not use some analysis during the collection process, you will waste hours of time collecting useless information that takes you nowhere.

Fig. 2.1 CI Phases linked by feedback loops



- *Communicating the finished intelligence.* This involves preparing, and then presenting, the results in a usable format and in a timely manner. The CI may have to be distributed to those who asked for it and, in some cases, to others who might also profit from having it. That secondary distribution is not as common as it could be. One study sadly notes

[m]ore than 70 percent of employees report [this kind of competitive] knowledge is not reused across the company (Korn/Ferry 2000).

The final form of the CI, as well as its timeliness and maintaining its security, are all important aspects of its communication.

- *Taking Action.* This means using the end-user actually uses the CI in decision-making. The CI may be used as an input to decision-making, or it may be the first of several steps in an overall assessment of, for example, a new market. The decision of how and when it is used is made by the end-user, not by the analyst (Fig. 2.1).

This is all very pedantic, but you should focus on the fact that *when CI professionals, consultants, academics and the military view the CI cycle, they presume that either (a) you are doing all of this for someone else, or (b) someone else is doing this for you.*

That assumption works very well for some large businesses, with separate, free-standing CI teams available to some decision-makers, but what about all of the rest of us? *The fact is that we all need some CI to do our jobs better.* If you do not think that you need CI, you are wrong. There is virtually no commercial context in which CI cannot be a critical addition to the process of beginning a business, growing it, succeeding in it, or even of just surviving.

Ask yourself this: is my firm so successful, so entrenched, and so well-funded, that there is nothing in the competitive environment that can impact it? Of course not! What would happen if your biggest competitor suddenly and unexpectedly went out of business? Or, what if a smaller competitor was acquired by a firm 50 times your size? What if your firm's most important supplier decided to cut out the middle man—you—and became a competitor? Knowing how to develop proactive CI might at least remove the “unexpected” from these unexpected scenarios. These and hundreds more critical events are places where effective CI, which can give you an early warning, can be a powerful tool for you.

So what does the CI cycle look like for you? It looks *very, very different*:

- *Establishing your CI needs.* This means recognizing that *you* need CI. It means considering what type of issue (strategic, tactical, marketing, etc.) is motivating you, and what questions you want to answer with the CI. For you, it also means determining what the *real* issues are that you have to deal with, those underlying your starting questions. We will give you pointers so that you can focus quickly on what you really need to know.
- *Collecting the raw data.* You have to identify where it is likely that you can collect the data you need to answer your questions. You need to have a realistic understanding of any significant constraints, such as time, financial, organizational, informational, and legal. For example, you may not be able, or willing, to call someone at a competitor's consumer information center for an answer to a simple question like "Where is this new product being sold?" Only then can you identify the data sources that are available to you and that are most likely to produce reliable, useful data.
- *Evaluating and analyzing the raw data.* In this phase, the data you are collecting is evaluated and analyzed—by you—and you transform it into CI for your own use.
- *Communicating the finished intelligence.* This is not applicable (unless you are talking to yourself).
- *Taking Action.* This involves using your own CI in your decision-making.

That all seems to represent pretty simple changes to the classic CI cycle, but embedded within these changes is a critical difference: you have no one helping you with your CI work, while the CI cycle assumes that there are at least two people working together. In particular, you have to use methods, which we will tell you about, to refine your own first questions into a statement of what you really need. You will have to do the data collection yourself, which almost always means you have less time to devote to it than would a full-time CI professional. And then you have to do the analysis yourself. That can be much more difficult than you think, but we will help you there too. We will give you specific guidance on how to do this and to compensate, as much as is possible, for the loss of an experienced intermediary. In addition, by doing this, you are by-passing the CI disconnect—you can make sure that your CI will be used in your decision-making.

2.2 Why Should You Care about Competitive Intelligence?

Consider the findings of a McKinsey study that asked executives how their firms responded either to a significant price change by a competitor or to a significant innovation by a competitor:

A majority of executives in both groups [across regions and industries] say their companies found out about the [significant] competitive move too late to respond before it hit the market (McKinsey 2008).

Let us look at it from a more positive angle. CI does provide value, even though virtually all evidence of the value and impact of CI is, to date anecdotal or deal with indirect assessments. Here are a few of the key ones that should help you feel better:

- In the early 1990s, a study of the packaged food, telecommunications and pharmaceutical industries reported that organizations that engaged in high levels of CI activity show 37% higher levels of product quality, which is, in turn associated with a 68% increase in business performance (Jaworski and Wee 1993).
- In the mid 1990s, NutraSweet's CEO valued its CI at \$50 million (about \$72 million in 2010 dollars). That figure was based on a combination of revenues gained and revenues which were "not lost" to competitive activity (Flynn 1994).
- A more recent PricewaterhouseCoopers' study of "fast growth" CEOs reported that "virtually all fast growth CEOs surveyed (84%) view competitor information as important to profit growth of their company" (PricewaterhouseCoopers 2002).

2.3 What Kinds of CI are There?

Today, CI, as it is practiced, is often divided into different, but overlapping, types. We feel comfortable with dividing it into strategic, competitor, tactical, and technical. The terms are simple, and communicate how the CI is intended to be used. They each share the common concept of where the data comes from and a common toolbox to help in its analysis. To you, the differences are sometimes important in terms of what questions you can seek to answer, where you can best look for data, and which analytical tools you should use.

2.3.1 *Strategic Intelligence*

2.3.1.1 What is Strategic Intelligence?

Strategic intelligence is CI supporting strategic, as distinguished from tactical, decision-making. This means providing higher levels intelligence on the competitive, economic and political environment in which your firm operates now and in which it will operate in the future.

2.3.1.2 Who and What Does Strategic Intelligence Help?

Strategic intelligence typically is used by senior managers and executives who make and then execute overall corporate strategy. Its most common applications are in the development of the following:

- Long-term (3–5 year) strategic plans
- Capital investment plans
- Political risk assessments
- Merger and acquisition, joint venture, and corporate alliance policies and plans
- Research and development planning.

2.3.1.3 What Does Strategic Intelligence Focus on?

Strategic intelligence usually focuses on the overall strategic environment. A firm's direct competitive environment and its direct competitors are, of course, included in that focus. It should also include its indirect competitors. In addition, strategic intelligence should develop CI on the long-run changes caused by, as well as affecting, all of the forces driving industry competition, including:

- Suppliers
- Customers
- Substitute products or service, and
- Potential competitors.

You conduct strategic CI analysis when you must focus on many critical factors, such as technology trends, regulatory developments and even political risks that, in turn, effect these forces.

Strategic intelligence's focus is less on the present than it is on the past, and is primarily on the future. The time horizon of interest typically runs from 2 years in the past to 5 or even 10 years in the future.

- In terms of an interest in the past, you will be collecting and analyzing data so that your firm can evaluate the actual success (or failure) of its own strategies and of those of your competitors. This, in turn permits you better to weigh options for the future. You are looking to the past to learn what may happen in the future.
- With respect to the future, you are seeking a view of your firm's total environment: competitive, regulatory and political. As with radar, you are looking for warnings of impending problems, and alerts to upcoming opportunities—always in time to take needed action.

2.3.2 Competitor Intelligence

2.3.2.1 What is Competitor Intelligence?

Competitor intelligence focuses on competitors, their capabilities, current activities, plans, and intentions.

2.3.2.2 Who and What Does Competitor Intelligence Help?

Competitor intelligence is most often used by strategic planning operations or by operating managers within strategic business units (SBUs). It may also be useful to product managers, as well as to those involved with product development, new business development, and mergers and acquisitions.

2.3.2.3 What Does Competitor Intelligence Focus on?

Competitor intelligence usually helps you answer a wide variety of key business questions, including ones such as these:

- Who are our competitors right now?
- Who are our potential competitors?
- How do our competitors see themselves? How do they see us?
- What are the track records of the key people at our competitors? What are their personalities? What is the environment in their own company? What difference do these people make in terms of our ability to predict how these competitors will react to our competitive strategy?
- How and where are our competitors marketing their products/services? What new directions will they probably take?
- What markets or geographic areas will (or won't) be tapped by our competitors in the future?
- How have our competitors responded to the short and long-term trends in our industry in the past? How are they likely to respond to them in the future?
- What patents or innovative technology have our competitors or potential competitors recently obtained or developed? What do those changes and innovations mean to us?
- What are our competitors' overall plans and goals for the next 1–2 years in the markets where they currently compete with us? What are their plans and goals for their other firms and how will those affect the way they run their business competing with us?

Competitor intelligence's time horizon typically runs from 6–12 months in the past to 1–2 years in the future.

2.3.3 Market Intelligence

2.3.3.1 What is Market Intelligence?

Market intelligence is focused on the very current activities in the marketplace. You can look at it as the qualitative side of the quantitative data research you have conducted in many retail markets.

2.3.3.2 Who and What Does Market Intelligence Help?

The primary users of market intelligence are usually the marketing department, market research, and the sales force. To a lesser degree, market intelligence serves those in market planning by providing retrospective data on the success and failure of their own sales efforts.

2.3.3.3 What Does Market Intelligence Focus on?

Market intelligence's focus is on sales, pricing, payment and financing terms, promotions being offered and their effectiveness. Market intelligence's time horizon typically runs from 3–6 months back to no more than 6 months in the future. Some of the time, however, the horizon is actually measured in terms of weeks, or even days, rather than months.

2.3.4 Technical Intelligence

2.3.4.1 What is Technical Intelligence?

Technical intelligence permits you to identify and exploit opportunities resulting from technical and scientific changes as well as to identify and respond to threats from such changes.

2.3.4.2 Who and What Does Technical Intelligence Help?

Technical intelligence is particularly useful if you are involved with your firm's research and development activities. Using basic CI techniques, those practicing technical intelligence now often can determine the following:

- Competitors' current manufacturing methods and processes.
- A competitor's access to, use of, and dependence on, outside technology, as well as its need for new technology.
- Key patents and proprietary technology being used by, being developed by, or being acquired by, competitors.
- Types and levels of research and development conducted by competitors, as well as estimates of their current and future expenditures for research and development.
- The size and capabilities of competitors' research staff.

2.3.4.3 What Does Technical Intelligence Focus on?

Technical intelligence has a slight overlap with both competitor and market intelligence, particularly with respect to its interest in suppliers and customers. However, instead of dealing with market trends, Technical intelligence is usually focused on technology trends and scientific breakthroughs. Technical intelligence projects can develop information on opportunities for your firm as well as threats to the firm. Technical intelligence's time horizon typically runs from 12 months in the past to 5+ years in the future.

2.4 What is NOT Competitive Intelligence?

Unfortunately, the wide variety of names that those of us in CI have used has caused, and probably will continue to cause, confusion between CI and other knowledge-based activities. The most frequent areas of confusion are with environmental scanning, business intelligence, knowledge management, and market/quantitative research.

Why do you care? Because when you do your own CI, you want to make sure that someone does not tell you that "We are already doing that sort of thing here, so there is no reason for you to have to do it" when they are actually referring to something else. Also, when you read more about CI, you want to make sure you are reading the right books.

2.4.1 Environmental Scanning

As the term "environmental scanning" is used today, its emphasis is on the future, not the present or the past. In addition, its stress is generally heavily on data acquisition to generate an early warning of problems, rather than on subsequent analysis, to support a wide range of decision-making (See Abreu and Castro [2010](#)). However, to add to the confusion, some CI professionals may use the term environmental scanning to give a broader mission to their research efforts than would be provided by just calling it plain old CI.

2.4.2 Business Intelligence

"Business intelligence" is a particularly difficult term to deal with. At one time, this term was actually used by some CI professionals to describe CI in a very broad way, and to describe only intelligence provided in support of corporate strategy by

others. Now its use seems to have been fully co-opted by those involved with data management and data warehousing. There, it can refer to:

- The software used to manage vast amounts of data,
- The process of managing that data, also called data mining, or
- The output of either of the first two.

In any case, virtually all of the reported applications and successes of business intelligence deal with processes which are internally-oriented, from process control to logistics, and from sales forecasting to quality control. The most that can be said of its relationship to intelligence is that

data mining and related techniques are useful tools for some early [terrorism intelligence] analysis and sorting tasks that would be impossible for human [intelligence] analysts. They can find links, patterns, and anomalies in masses of data that humans could never detect without this assistance. These can form the basis for further human inquiry and analysis (DeRosa 2004, p. 6).

2.4.3 Knowledge Management

First, most knowledge/data management systems (KMSs) are essentially *quantitative* in focus, while CI, as a discipline is most often *qualitative* in focus.

Second, those conducting CI often need to be able to access the people who provided the data as well as the data. Why? Data gives only the past; people can help you to see into the future. But, again, most KMSs are keyed to storing and manipulating data. They rarely allow precise identification of a human source(s), much less information on obtaining immediate and direct access to him/her.

Third, most KMSs are not set up to capture data on anything that does not involve the firm itself. Yet firm personnel, from the CEO down, interface daily with customers, from whom information on competitors can be developed, as well as with suppliers, distributors and the like. All of those in the supply chain, for example, can be powerful sources of useful CI data. But KMSs typically do not provide access to them.

Fourth, the sales force, potentially a very powerful source of data in support of CI, is rarely involved with KMSs and related efforts. The sales force often sees any initiative that does not produce immediate sales opportunities as a distraction or even irrelevant. Yet, those firms who can tap into the sales force as a part of the CI process have found significant benefits for both sides of the transaction.

Fifth, few, if any, KMSs provide access to current information on current employees. And knowing which employees are members of what professional association, which have gone to what trade shows, where they worked before and what they did there is something of great value to many seeking to gather CI data.

Sixth, KMSs do not record decision-making and the history of decisions. KMSs have the potential, as yet untapped, to serve as the repositories of enterprise history, at the strategic as well as product and service levels. But, we know of none which, for example, access previous strategic plans, much less retrospective evaluations of their success, and, more importantly, their failures.

2.4.4 Market Research and Quantitative Research

While CI does use some quantitative methods in conducting its analysis, it does not do so to the degree that most quantitatively-oriented researchers do. To draw a somewhat imprecise line, market research focuses on competitors and the firm's own interface with its customers on an historic and real-time basis. CI focuses on a broader horizon, including potential competitors, the supply and distribution chains, and research and development. In addition, its perspective is most often forward-looking. To play off an advertising slogan, CI seeks answers to questions like "Where do they want to go tomorrow?" Finally, CI, because it is forward-looking, is heavily qualitative (stronger, weaker) in comparison with more market research and qualitative research (15.3%, 2.3 million units).

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<http://www.springer.com/978-1-4471-2741-3>

Proactive Intelligence

The Successful Executive's Guide to Intelligence

McGonagle, J.J.; Vella, C.M.

2012, XVI, 184 p., Hardcover

ISBN: 978-1-4471-2741-3