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Table of contents

1. A case for competitive intelligence.....	1
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A case for competitive intelligence

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Abstract:

This article defines competitive intelligence (CI), discusses why CI is important for a business, and explains how to collect the CI a business needs. The CI process is usually divided into five basic phases, each linked to the other by a feedback loop: 1. establishing CI needs, 2. collecting the raw data, 3. evaluating and analyzing raw data, 4. communicating the finished intelligence, 5. taking action. On a global basis, CI is in use on every industrialized continent. To date, virtually all evidence of the value and impact of CI is anecdotal or consists of indirect assessments.

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Full text:

Headnote

90% of the information a company needs to understand its market and competitors and to make key decisions is already public

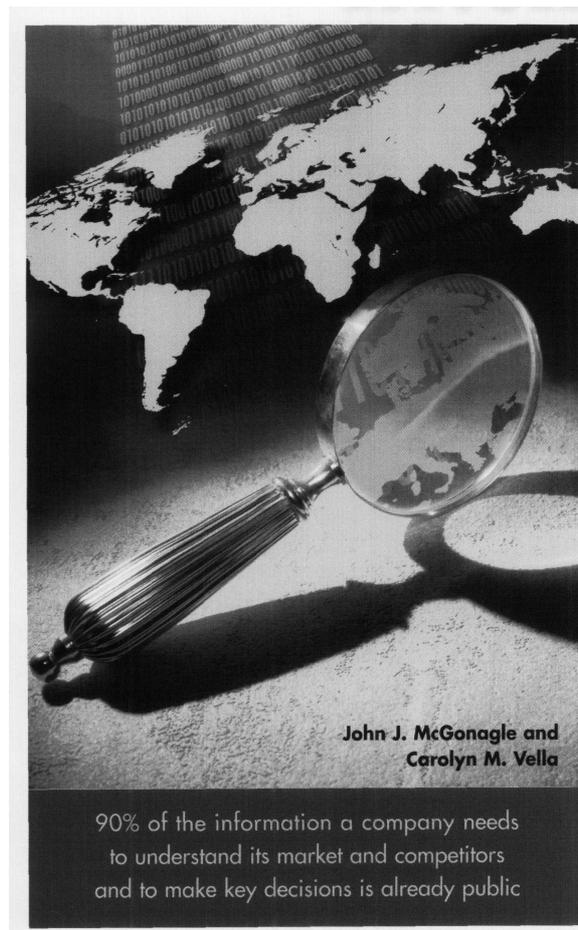
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At the Core

Headnote

This article:

- * Defines competitive intelligence
- * Discusses why CI is important for a business
- * Explains how to collect the CI a business needs



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For more than a decade, there have been those who have worked to reconize the existence and utility of active, externally oriented, intelligence gathering in their operation. This strategy was (and sometimes still is) variously called "competitive intelligence," "business intelligence," "corporate intelligence," "competitive information," or "commercial intelligence." Most practitioners have now settled on one term - "competitive intelligence" (CI).

CI consists of two facets:

sions.

Today, there are at least four separate types of active, as opposed to defensive, CI. Understanding CI today requires an understanding of what is meant by "public." The term is to be taken in its broadest sense: it encompasses more than studies that the U.S. Department of Labor releases or what is reported in *The Sydney [Australia] Morning Herald*. In CI, "public" is not equivalent to published. It is significantly broader in concept. Here, "public" means

all information that can legally and ethically be identified, located, and then accessed. This ranges from a document filed by a competitor as part of a local zoning application to the text of a press

... who may be using the CI, and how, by whom, and when the CI will ultimately be used.

- *Collecting the raw data:* First, needs are translated into an action plan. This involves identifying the ques...

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"More than 70% of employees report knowledge is not reused across the company."

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* The use of public sources to develop data (raw facts) on competition, competitors, and the market environment.

* The transformation, by analysis, of that data into information (usable results) able to support business decisions.

Today, there are at least four separate types of active, as opposed to defensive, CI.

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Here, "public" means all information that can legally and ethically be identified, located, and then accessed. This ranges from a document filed by a competitor as part of a local zoning application to the text of a press release issued by a competitor's marketing consultant describing the client's proposed marketing strategy while the marketing firm extols the specifics 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 the organization's own sales force. It is the common principle of the use and analysis of publicly available information to assist in the effective management of a company that links the variations of CI.

How CI Works

The CI process is usually divided into five basic phases, each linked to the others by a feedback loop. These phases, making up the CI cycle, are

* Establishing CI needs: Recognizing the need for CI, defining what kind of CI is needed, and considering what type of issue (strategic, tactical, marketing, etc.) is motivating the assignment, what questions need to be answered with the CI, who may be using the CI, and how, by whom, and when the CI will ultimately be used.

* Collecting the raw data: First, needs are translated into an action plan. This involves identifying the questions and the likely sources for collecting the data needed to answer those questions. There should be a realistic understanding of any significant constraints - time, financial, organizational, informational, and legal issues. Then the data sources that are most likely to produce reliable, useful data are identified and acquisition begins.

* Evaluating and analyzing raw data: The data collected is evaluated and analyzed; thus, it is transformed into CI. Keep in mind that there are at least two ways in which analysis is applied. The first is to make a selection, such as deciding which of a dozen news articles is important. The second is to add value to one or more pieces of data. For example, adding an interpretive statement to 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 regard only the latter process as analysis.

* Communicating the finished intelligence: Preparing - sometimes with reformatting - the results and then presenting them in a usable "container" 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 also might profit from having it. As a recent Korn/Ferry International/ University of Southern California's Center for Effective Organizations study noted, "more than 70 percent of employees report knowledge is not reused across the company." The final form of the CI, as well as its timeliness and security, are important considerations.

* Taking Action: Using the CI in decision making. 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.

Competitive intelligence, as practiced today, may be divided into four different yet overlapping types: * Strategy-oriented CI: provided in support of strategic, as distinguished from tactical, decision making. This CI role means providing higher levels of management with information on the competitive, economic, legal, and political environments in which an organization and its competitors operate now and in the future. It also may involve

developing CI on candidates for potential mergers and acquisitions as well as for alliances and partnerships. Most CI practiced in the 1980s and early 1990s, including much of what fell into the category known then as "business intelligence" can be considered as strategy-focused CI.

* Tactics-oriented CI: developed on current activities and near-term plans identifiable in the marketplace. In a real sense, tactics-oriented CI is a child of the computer age's support for the detailed analysis of retail consumer goods sales. It encompasses much of what has previously been called "market" or "sales-and-marketing" intelligence. Firms increasingly are tracking what is going on "in the trenches" that is, where competitors face off for customers and consumers with tactics-oriented CI. In turn, according to a Competitive Intelligence Review article by John Cain, this type of CI permits organizations to fine-tune marketing efforts, including field-force support, to respond faster.

* Technology-oriented CI: permits a firm to respond to threats from, as well as to identify and exploit opportunities resulting from, technical and scientific change. Technology-oriented CI encompasses much of what has been referred to as technology intelligence (TI) or competitive technical intelligence (CTI). Technology-oriented CI, supporting technology strategies as well as research and development, has become a growth area within CI.

* Target-oriented CI: about competitors, their capabilities, current activities, plans, and intentions. It is most often used when CI efforts are best focused on a small number of competitors that a firm faces in several market niches. It encompasses elements of what is sometimes called "business intelligence" or "competitor intelligence."

Unfortunately, the term competitive intelligence and its historical variants have caused and will continue to cause confusion. Two of the areas most commonly confused with CI are environmental scanning and business intelligence.

J.L. Morrison's classic view of environmental scanning is that it is a method that enables decision makers both to understand the external environment and the interconnections of its various sectors and to translate this understanding into the institution's planning and decision-making processes.

Typically, as this term is used in practice, the emphasis is on the future, not the present, and more on data acquisition to serve as an early warning rather than on its analysis to support a wide variety of decision-making needs. Using the divisions of CI, as discussed here, most of what is called environmental scanning would fall within strategy-oriented and technology-oriented CI.

Business intelligence is a particularly difficult term to define. At one time, it was used by some to describe competitive intelligence and intelligence in support of corporate strategy by others. Now, Information Week says its use seems to have been co-opted by those involved with data management and data warehousing. In that case, it refers to one of three concepts:

- * software used to manage vast amounts of data
- * the process of managing that data
- * the output of either of the first two

In any case, virtually all of the reported applications and successes of business intelligence deal with internally oriented processes - from process control to logistics, and from sales forecasting to quality control. It is that internal-only orientation that now separates business intelligence from all types of CI.

How Widespread Is CI?

On a global basis, CI is in use on every industrialized continent. CI practitioners are found in virtually every form of enterprise, including educational and nonprofit entities. To show the level of activity and interest in CI, we can look to The Society of Competitive Intelligence Professionals (SCIP), the association representing CI professionals. In 2002, the association reported it had approximately 5,000 members. In addition, the association's Web site reports an average of almost 10,000 hits per week for a period longer than one year. However, those involved with CI do not always carry a title that includes "CI." A 2000-01 SCIP survey found the

following job descriptions/locations for the members of its association:

CI or analysis 37.7%

Market or planning, research, or analysis 25.4%

Information center or services 11.2%

Business development/ Product planning/R&D 9.8%

Strategic planning 8.2%

Other 6.9%

Financial planning/ Counterintelligence 0.9%

How Successful Are Firms That Use CI?

To date, virtually all evidence of the value and impact of CI is anecdotal or consists of indirect assessments.

That is due, in large part, to the failure of CI practitioners to develop and apply effective and appropriate metrics to CI. That process is slowly changing; however, until it does, we must be satisfied with these measures

* 1993: An SCIP-sponsored study of the packaged food, telecommunications, and pharmaceutical industries reported that organizations that engaged in high levels of CI activity show 37 percent higher levels of product quality, which is in turn associated with a 68 percent increase in business performance. That was in comparison with organizations reporting low levels of product quality. Conversely, the study found that the lack of a formal, sanctioned CI structure led to "less collection, analysis, and use of competitive intelligence."

* 1994: NutraSweet CEO Robert Flynn publicly said CI's value to his company was equivalent to \$50 million. That figure was based on a combination of revenues gained and revenues that were "not lost" to competitive activity.

* 1995: A study published in Competitive Intelligence Review concluded that companies emphasizing CI financially outperformed other companies, on average.

* 1999: Business Week reported that Texas Instruments' CI efforts "convinced management that it needed to acquire [a CI source] quickly - and safeguard what is now a \$100 million business with enormous growth potential."

* 2000: A Merck executive reported that recent CI efforts have been 11 worth \$150-\$200 million in incremental global sales," and that the final figure could go as high as \$400 million, according to Competitive Intelligence Magazine.

* 2002: A PricewaterhouseCoopers study of "fast-growth" CEOs revealed that "virtually all fast-growth CEOs surveyed (84 percent) view competitor information as important to the profit growth of their company."

Where Does CI Get Its Raw Data?

A key maxim in CI, derived from the history of governmental intelligence, is that 90 percent of all information that a firm typically needs to make critical decisions and understand its market and competitors is already public or can be systematically, legally, and ethically developed from public data. That concept has driven CI to develop and refine more effective and rapid ways of accessing and analyzing such data.

However, what is often forgotten is the fact that up to 90 percent of all that "public" data can potentially be found within the enterprise itself, or developed from leads within the enterprise. Very few CI units have developed effective ways of accessing that internal data on a regular and formal basis, so they have turned to external sources to develop data, which could be coming to them from proper internal rather than external sources.

What kind of data are we talking about? Consider this partial list:

* What are current customers saying about competitors' products and services, and why they are switching?

* What are purchasing agents saying to sales representatives about new product and service offerings not yet made public?

* What industry conferences have employees attended, what did they learn there, who else attended, and where are the materials that were distributed there?

* Who in the enterprise has paid outside contractors and services for onetime reports and studies? On what

topics? Where are those reports? What do they say? How well done were they?

* What product and service introduction or delivery rumors have production personnel heard from suppliers? Who are our current competitors? On what basis are they identified as such? Who has a copy of their current price lists and catalogs?

* What do we know about competitive products and services? Do we have samples? Where are they? Have they been reverse engineered? By whom?

* Who provides the enterprise with what goods and services? Who are the appropriate people at each enterprise that the CI professional can contact for more current data and leads to further interviews?

CI professionals turn outward for such data because they currently are unable to access any of this internally on a cost- and time-effective basis. There are several reasons for it, each of which can be successfully addressed

* According to Alf H. Walle's book, *Qualitative Research in Intelligence and Marketing*, most knowledge/data management systems are essentially quantitative in focus, while CI as a discipline most often concentrates on the qualitative.

* CI professionals need to be able to access the people who provided the data as well as the data. Data provides only the past; people can help you see into the future. But, again, most knowledge management systems are focused on storing and manipulating data, and rarely allow identification of the source, much less information on obtaining immediate and direct access to them.

* Most knowledge management systems are not set up to capture data on anything that does not involve the company. Yet company personnel from the CEO down interface daily with customers, from whom information on competitors can be developed, as well as from suppliers, distributors, and the like. All of those in the supply chain, for example, can be powerful sources of CI data.

* The sales force, potentially the most powerful source of data in support of CI, is rarely involved with knowledge management and related efforts. The sales force sees any initiative that does not produce immediate sales opportunities as a distraction and probably irrelevant. Yet, according to APQC International Benchmarking Clearinghouse, those firms that can tap into the sales force as a part of the CI process have found significant benefits for both sides of the transaction.

* Few, if any, knowledge management systems provide current information on employees. Knowing which employees are members of what professional associations, which have gone to what trade shows, where they worked before, and what they did there is something desired by many CI professionals.

* Knowledge management systems do not record decision-making and the history of decisions. For example, none contain copies of previous strategic plans, much less evaluations of their successes, and, more importantly, their failures. Knowledge management systems have the potential to serve as the repositories of enterprise history at the strategic as well as the product and service level.

It is this set of shortcomings that those truly dedicated to the success of knowledge management systems and other records and information management systems should address. If they can deal with them, then CI professionals, in turn, will be able to exploit an asyet-untapped reservoir of competitively sensitive data. This new partnership between those focused on internal information resources (e.g., records managers) and those who concentrate on external information resources (e.g., corporate libraries and CI specialists) will be unrivaled.

Sidebar

"More than 70% of employees report knowledge is not reused across the company."

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