

## The Basics of Competitive Intelligence

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"It is pardonable to be defeated, but never to be surprised."

-- Frederick the Great

- Two men in an unmarked minivan cruise the streets around Philadelphia tuning in cellular phone transmissions. They're not eavesdropping on phone conversations, and they're not doing anything illegal or unethical. Using communications equipment previously only available to the military, they are measuring the strength and range of their competitor's signals.

- A beer company analyzes wastewater pumping from a competitor's brewery. Their ultimate goal is to save millions of dollars on promotional and advertising campaigns.

- A business consultant and metallurgist study the thickness of rust on railroad tracks leading from a paper mill. It will tell them whether or not to open a competing facility.

- During a strategy meeting of an U.S electronics firm, a manager swaggers in playing the part of a competitor's CEO. He acts, dresses and even talks like the other person.

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These people are involved in the mysterious and often murky world of global competitive intelligence. It's a world inhabited by corporate spies, former government gumshoes and hard-nosed business people looking for any angle to beat the competition.

What is competitive intelligence?

*Competitive intelligence is a systematic program for gathering and analyzing information about your competitors' activities and general business trends to further your own company's goals.*

When practiced responsibly it's legal and ethical, although some companies have been known to cross the line -- stealing information, wiretapping phones and burglarizing offices -- entering the darker realm of world of industrial espionage.

Most companies don't enter this illegal world. In fact, it's unnecessary. Virtually everything they need to know is available albeit sometimes purposely hidden or hard to find. These experts gather information by employing the latest technology and ingenious methods including satellite photo-reconnaissance, combing government databases, filing Freedom of Information Act requests, back-engineering and even hiring psychiatrists to analyze a competitor's decision makers. Companies often employ super-speed computers designed specifically for analyzing mountains of data.

These skilled corporate agents ferret out information from the most unlikely of places and transform it into intelligence that can turn their company around, build market share, launch new products or destroy a competitor. It's a hardball world that turns raw data into millions of dollars if done well. If done poorly, their own company might perish as a result of their miscalculations.

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## **What Competitive Intelligence Can Do For Your Company:**

### **Information vs. Intelligence**

The basis of competitive intelligence is knowing the difference between *information* and *intelligence*.

When executives say that they have too many reports to read, too much information to go through before making a decision, they're making the mistake of confusing information with intelligence. What they really mean is that they have too much information and not enough intelligence.

Understanding the difference between these two items will help them get on the road to more efficient decision making.

Here's the difference:

*Information is factual.* It's numbers, statistics, scattered bits of data about people and companies and what they've been doing that seems to be of interest. Information often appears to be telling you something but in reality it's not. You can't make good decisions based on information no matter how accurate the information is or no matter how comprehensive it is.

*Intelligence, on the other hand, is a collection of information pieces which have been filtered, distilled and analyzed.* It has been turned into something that can be acted upon.

*Intelligence is what managers need to make decisions, not information. Another term for intelligence is knowledge.*

The United States is the most information-rich nation in the world. We have more information produced, more information stored and more information flowing through our computers and networks than anywhere else in the world. This massive amount of facts makes us think that data is important. Indeed, we think we live in the information age, but we couldn't be more wrong. While that was true several years ago, it is no longer the case.

When computers and telecommunications merged in the mid-1980s, (Koji Kobayashi former chairman of NEC had the vision to realize that communications and computers were intertwined and so set his company on that course) information became so important that we traded it, moved it and worshipped it. However, since that time, information has become a commodity.

With the advent of massive commercial and government databases, information has become cheap and accessible at the same time. So, while we continue to establish new sources of data, it has become less important at the same time.

Take the example of portable devices that allow us to receive commodity prices almost instantly anywhere we roam. If everyone who wants that capability can have it - and the prices have come to the point where even the amateur trader can afford the service - does that make the information less valuable?

Yes, it does.

If everyone has the same information, who has the edge over his competitors? Because the commodities market usually is a zero sum game - somebody wins when somebody loses - pure information is no longer an edge. What gives a trader the competitive advantage over someone else is his analysis of the prices, their movements and other factors. How he turns raw

information into actionable intelligence is what separates the successful trader from the one who fails.

This is true of all businesses.

*The company that knows how to turn information into intelligence will succeed and those that don't - or who simply continue to rely on information as sources of inspiration - will fail.*

### **What CI Can Do for Your Company**

Suppose you were going to hire a consulting firm. Both come highly recommended, both have the same capabilities but one was much less expensive than the other. Be honest. Would your first thought be that the lower cost consultant could not be as good as the more expensive one?

Of course. It's human nature to think so.

Even though there might be other factors involved, the lower priced consultant would beg questions of competency.

Now, suppose I told you that instituting a competitive intelligence system would require only minimal resources and a minute change in organizational structure. In other words, the start-up costs were low and the rewards extremely high.

Would that change how you felt about it? Would the low cost make it seem unworthy?

I'm sure it would. It's only human nature.

But you'll find that instituting a full blown competitive intelligence system is neither costly nor disruptive and pays off in ways you can't yet imagine.

Okay, so if it's so good, why doesn't every company do it? Before I answer that question, let me stack the deck a bit and tell you what a competitive intelligence system can do for you and your company.

*First, competitive intelligence is not a function; it's a process.* As a result it should appear in all aspects of your business as one seamless process not relegated to one area, division or unit.

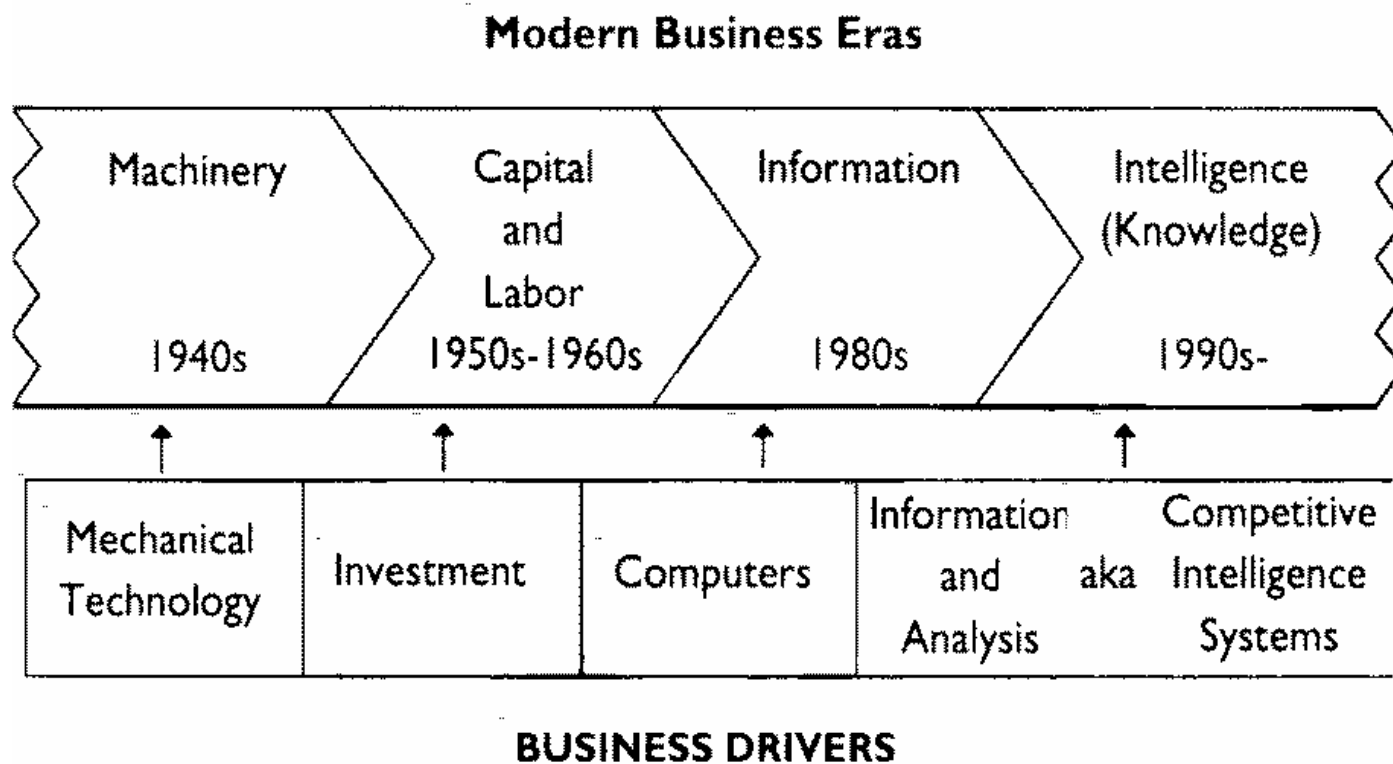
Although the main job of competitive intelligence is to support management decisionmaking, having a formalized competitive intelligence system in place can help your company address many different issues.

A formalized competitive intelligence program can:

- *Anticipate changes in the marketplace.*
- *Anticipate actions of competitors.*
- *Discover new or potential competitors.*
- *Learn from the successes and failures of others.*
- *Increase the range and quality of acquisition targets.*
- *Learn about new technologies, products and processes that affect your business.*
- *Learn about political, legislative or regulatory changes that can affect your business.*
- *Enter new businesses.*
- *Look at your own business practices with an open mind.*
- *Help implement the latest management tools.*

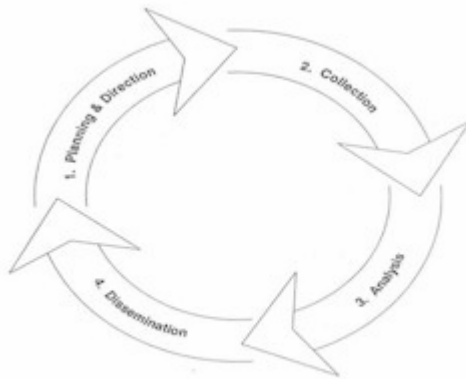
## Why Now More Than Ever

We now longer live in the business world of our fathers and mothers. The nature of business has changed so radically that they would not recognize it. In fact, their drivers of business are no longer in play and new drivers are propelling everything we do. Intelligence drives business and CI is a mechanism that allows us to use this knowledge.



## The Nuts and Bolts of CI

The basic unit of a competitive intelligence system is the intelligence cycle. It is the process by which raw information is turned into intelligence.



The process that is used by companies is similar to that which is employed by the CIA and others in the intelligence community worldwide.

The beauty lies in its simplicity. There are only four steps.

### **1. Planning and direction**

This is the step when management gets involved and decides what intelligence it requires. This is also the part of the cycle in which the competitive intelligence practitioner decides which course he should take in fulfilling his task.

This stage can also be thought of as the other end of the intelligence cycle because once specific intelligence is delivered to the decision maker his subsequent actions - based on that



intelligence - will spur further intelligence needs. The company's situation undoubtedly will change based on those actions.

## **2. Collection**

This phase involves the actual gathering of raw information from which intelligence will be produced. The vast majority of collection materials are public domain meaning they are available to anyone who knows where to look. Sources include periodicals, annual reports, books, broadcasts, speeches, databases and so on.

Creative collectors can usually find anything they need legally and ethically.

Collection also involves processing information so that it can be transmitted and stored electronically if desired. Once in electronic form it can be manipulated into a form which allows it to be analyzed.

## **3. Analysis**

This is generally considered the most difficult part of the intelligence cycle. Analysis requires great skills and guts because it requires the analyst to weigh information, look for patterns and come up with different scenarios based on what he has learned.

Even though analysis is based on logic and hard information, analysts must sometimes 'fill in the blanks' and make educated guesses about possible outcomes.

#### **4. Dissemination**

This is the last step (and the first, too) in the cycle and involves distributing the intelligence product to those who requested it.

It's the time when the analysts will suggest possible courses of action based on his work. He must be able to articulate his recommendations and defend them with logical arguments.

The resulting intelligence will also be distributed to others in the company who can use it.

#### **Why It's Better As a Process**

Competitive intelligence works best when considered a process instead of a function.

First, the structure of the intelligence cycle is clearly a process, and when you run a large scale intelligence system in your company all you have to do is expand the steps larger, outwardly to include more people to accommodate its growth.

In addition, even though some very successful companies consider competitive intelligence as a function and attach it to the offices of top management (an obvious plus for its stature) that configuration can sometimes be thought of by the rest of the company as some kind of 'executive spy agency.' By keeping competitive intelligence at the highest levels only, it can sometimes cut the group off from the rest of the company including those who might want to know more about it and could benefit from it. Moreover, employees who might otherwise contribute information into the system, might be discouraged from doing so.

## **Where to Put Your Competitive Intelligence Unit**

In many large companies the competitive intelligence unit is placed in the strategic planning office which reports directly to top management. This makes the most sense if the competitive intelligence unit's main job is to support strategic planning and in most companies this is the case.

In other companies you may find a competitive intelligence unit in each business division, attached to a senior vice president or president.

What you don't want to happen is for each function such as marketing, sales and R&D to have their own competitive intelligence units UNLESS they talk to each other. This communication can be difficult to accomplish in some companies.

Where the unit is placed is not as important as how its lines of communications are configured. In many companies information flows from the top down or from the bottom up. It rarely moves around the company freely and that's a mistake. Some of the recent work with organization concepts such as the Learning Corporation has taught us that.

For maximum efficiency and power, the competitive intelligence unit should be placed high enough in the organization so people respect it and see that it has a senior champion. However, it should also be accessible by everyone in the company and not be part of any one division as previously noted.

**The competitive intelligence unit should be close to the prime users but accessible to everyone in the corporation.**

## The Future of CI

In the future, intelligence-based companies which have become efficient, learning, prosperous entities will be one part of a larger, worldwide intelligence community. This network will embrace countries, governments, social structures and individuals all of which will be connected by the concept we call intelligence.

Most important, this intelligence will be based on *open source* information. There will no need for any illegal or unethical information collection.

A vision of the future that I share is one of open sources in which all citizens become part of the information collection process, that information easily moves around and that each person, government or business use the information in its own way for its own purposes.

Despite what you might think, this doesn't lead to a national or global 'dumbing down' where, because we all have access to the same information we all come to the same conclusions and therefore nothing progresses. On the contrary, each of us has different needs and different purposes for information. What I need in my business may not be important to your company. This holds for countries as well.

What will happen instead, I suggest, is that we will learn how to exploit the same information in unique ways. We will learn new ways of thinking and analyzing which can be passed on to others. Just like benchmarking eventually leads to better products and services, sharing information leads to more social progress.

In the future, information will become cheap and accessible to even the most poor people, but they can become prosperous if they can turn it into intelligence that they can exploit.

In the future, everyone will be a *collector of information* and everyone will be a *consumer of intelligence*.

(This article was excerpted from *Competitive Intelligence* by Larry Kahaner, published by Simon & Schuster, 1996.)

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Kahaner's clients include Fortune 500 companies such as Monsanto, MCIWorldcom and Cable & Wireless and smaller companies such as The Gold and Silver Institutes, ROI Advertising and Adler & Robin Books.

He is also the author of *The Talmud Way of Business: Ancient Lessons About Profits and Ethics For Today's Business Professionals*; *Say It and Live it; 50 Corporate Mission Statements That Hit The Mark* and *On the Line; The Men of MCI Who Took on AT&T and Won*. He is a former Washington staff correspondent for *Business Week* Magazine, a reporter for Knight-Ridder newspapers and founding editor of *Communications Daily*. He has written for many other publications including *The Washington Post*, *The International Herald Tribune*, *The European* and *The Christian Science Monitor*. He has appeared on CNN's *Larry King Live!*, CNBC's *Management Today*, *Evening Magazine*, National Public Radio's *All Things Considered*, CBS

*Evening News* G. Gordon Liddy Show, Derek McGinty Show, Voice of America, *Talk to America*; Fox TV News, Bloomberg Business News, and local TV and radio stations throughout North America.

He has presented before the Society of Competitive Intelligence Professionals Annual Conference; International Quality & Productivity Center, National Military Intelligence Association; American Recover Association Annual Meeting; Institute of Police Technology and Management; District of Columbia Police Academy; Halton Regional Police Dept., Toronto, Canada; the Graduate Management School of the University of Indonesia in Jakarta and dozens of colleges and universities.

Kahaner is a former board member of the Society of Competitive Intelligence Professionals and a member of The Author's Guild.