COMPETITIVE INTELLIGENCE -- AN OVERVIEW

By Stephen H. Miller
Editor, Competitive Intelligence Magazine

Increasingly, management strategists are relying on a frequently misunderstood practice known as Competitive Intelligence. From out of the shadows of corporate "spy vs. spy" stereotypes, today's CI professionals are legally and ethically collecting, analyzing, and applying information about the capabilities, vulnerabilities, and intentions of their competitors, and monitoring developments within the overall competitive environment (such as previously unseen rivals over the horizon, or new technologies that could change everything). The goal: actionable intelligence that will provide a competitive edge.

By analyzing rivals' moves, CI allows companies to anticipate market developments -- rather than merely react to them.

"The big payoff for Competitive Intelligence is that it will point out weakness that you have internally because of the strengths of your competitors. Companies that don't do this will fail," former Kellogg USA President Gary Costly warned as a CEO Roundtable hosted by the Society of Competitive Intelligence Professionals. Likewise, said John Pepper, Chairman of Procter & Gamble, "I can't imagine a time in history when the competencies, skills and knowledge of the men and women in competitive intelligence are more needed and more relevant to a company being able to design a winning strategy and act on it. I can't imagine a company not realizing the fundamental need for this today."

Established in 1986, SCIP is a global not-for-profit association whose 7,000 members conduct competitor research and analysis for large and small companies, and help management to plan competitive strategy.

WHAT IS CI?
Competitive intelligence is the process of monitoring the competitive environment. To be more exact, CI is a systematic and ethical program for gathering, analyzing, and managing information that can affect a
CI enables senior managers in companies of all sizes to make informed decisions about everything from marketing, R&D, and investing tactics to long-term business strategies.

The CI Cycle

Effective CI is a continuous cycle, whose steps include:

1. Planning & direction (working with decision makers to discover and hone their intelligence needs);
2. Collection activities (conducted legally and ethically);
3. Analysis (interpreting data and compiling recommended actions)
4. Dissemination (presenting findings to decision makers)
5. Feedback (taking into account the response of decision makers and their needs for continued intelligence).

Unlike internal knowledge management, CI's focus is on external events and trends, with a strong focus on competitors' activities and likely intentions. A key goal is "early warning" -- timely alerts that allow decision makers to take preparatory action to maintain competitive advantage. To be succinct, competitive intelligence allows management to detect changes in the market early and quickly enough to make a difference for the strategic position of the company.

A key thrust of CI is analysis, which turns raw data (a collection of facts, figures, and statistics relating to business operations) into actionable intelligence (data organized and interpreted to reveal underlying patterns, trends, and interrelationships). Data thus transformed can be applied to analytical tasks and decision making, which forms the basis for strategic management.
ETHICAL CI

Economic espionage represents a failure of Competitive Intelligence, which uses open sources and other forms of ethical inquiry. Importantly, SCIP mandates that all this be done within a strictly ethical framework. The Society's Code of Ethics insists that members comply with all applicable laws, accurately disclose their identity when soliciting information, and respect all requests for confidentiality. Promoting CI as a discipline bound by a strict Code of Ethics and practiced by trained professionals is one of SCIP's paramount goals.

According to leading CI professionals, almost all the information they need can be collected by examining published information sources, conducting interviews, and using other standard methods, similar to what journalists and other researchers do. Then, using a variety of analytical tools, a skilled CI professional can fill by deduction any gaps in information already gathered.

STRATEGY & CI

Realizing their need to hone competitive strategy, a growing number of the biggest global companies have established world-class CI functions within their firms. Still, most companies lack dedicated Competitive Intelligence operations, despite that fact that most business leaders recognize that their success depends on looking forward and moving more quickly than the competition -- a contradiction!

Admittedly, companies large and small have always made efforts to keep tabs on their rivals in some fashion without knowing it's called Competitive Intelligence. That's not to say they couldn't be doing a far better job of it, which is the impetus behind SCIP. Society members have taken CI out of the dark ages by "professionalizing" its methods. These include not only the basics -- identifying information sources, gathering data, and analyzing the collected information -- but applying cutting-edge tools and techniques that include (among many):
• Wargame exercises with alternate competitive scenarios to test the "what ifs" that lie ahead;
• Data mining information already in operational files so it can be applied to analytical tasks;
• Technology scouting via patent tracking and other tools that reveal areas in which competitors are likely to make breakthroughs;
• Creating psychological profiles of the competitors' top decision makers;
• Attending trade shows and conferences smartly;

and so on.

Trying to remain cognizant of your competitors' intentions and unanticipated marketplace developments by scanning open-source public records; carefully monitoring the Internet and mass media; talking with customers, suppliers, partners, employees, industry experts and other knowledgeable parties; - with the aim of gathering data on what your rivals are up to and incorporating that awareness into your business planning -- all of this is Competitive Intelligence. And so is taking that information, boiling it down, and shaping an analysis of a competitor's situation in order to yield insights into its present status and future objectives, and determining how all of this compares with your own strategy -- while raising red flags about fresh competition from unexpected quarters.

Being blindsided by unforeseen developments, after all, can be lethal in today's "hypercompetitive" environment. In the 1980s, Apple Computer thought its chief competition was IBM while a company called Microsoft proceeded to take over the computing world. And speaking of Big Blue and its once-supposed omnipotence, a CI manager at Xerox relates that during the '70s Xerox also assumed IBM was its greatest threat. Meanwhile, Kodak was branching out from photography into copiers because they were both ways to image, and Japanese firms were gearing up for a major assault on the American copier market. Systematic, professional CI could have greatly reduced the likelihood of such surprises.

Below are the results of a survey into the use and effectiveness of various popular CI analysis techniques:
SWOT = Strengths, Weaknesses, Opportunities & Threats

Effectivness of Analysis Tools

<table>
<thead>
<tr>
<th>Tool</th>
<th>Percent Rating Each Tool Extremely or Very Effective</th>
</tr>
</thead>
<tbody>
<tr>
<td>SWOT analysis</td>
<td>63.1</td>
</tr>
<tr>
<td>Competitor profiles</td>
<td>52.4</td>
</tr>
<tr>
<td>Financial analysis</td>
<td>45.5</td>
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<tr>
<td>Win/loss analysis</td>
<td>31.4</td>
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<tr>
<td>War gaming</td>
<td>21.9</td>
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<tr>
<td>Scenario development</td>
<td>19.2</td>
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<tr>
<td>Conjoint analysis</td>
<td>15.8</td>
</tr>
<tr>
<td>Simulation/modeling</td>
<td>15.4</td>
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GLOBAL CI

As more countries are embracing free markets, CI is evolving as a worldwide practice. Preliminary data from a SCIP-sponsored Global Survey of Competitive Intelligence reveals that 2-3% of Germany's leading firms are aggressively conducting CI, primarily in the chemical/pharmaceutical and telecommunications industries. Germans, by the way, perceive the U.S. as leading the world in the quality and quantity of CI, followed by Britain.

In Japan, CI is really part of every manager's job -- at least in terms of collecting information and passing it on to key decision makers (the Japanese are catching up in the area of CI analysis, however). South Africa started doing CI as its markets opened up over the last decade. However, in a great many countries CI is still in its infancy.
Another indicator of CI as a growing practice worldwide is the evolution of SCIP itself. Globally, some 20% of SCIP's members are in 60 countries outside the U.S., as are 37 of SCIP's 76 chapters (as of May 2001).

**CI TOOLS**

While great attention has been paid of late to "knowledge management," much less has been given to Competitive Intelligence. True, CI has benefited from advances in information technology infrastructure and the elevation of knowledge management into a dominant corporate function. Moreover, the integration of knowledge management throughout organizational structures is helping to raise awareness of CI's value. Knowledge, after all, must be produced and analyzed before it can be communicated and "managed." This applies not only to internally generated data, but to intelligence from outside the corporate walls, which can challenge the insularity that often hobbles corporate decision makers.

Yet too many businesses still have not incorporated CI into their corporate cultures, much less into their IT frameworks. That puts them at a disadvantage to companies that have integrated CI into their intranets and internal databases. For example, a growing number of firms have developed CI areas on their intranets to prevent their people from being blindsided, and as a central resource for capturing and sharing CI throughout the company.8

In addition to corporate intranets and data management programs for storing CI and making it accessible, the market is growing for software that specifically facilitates CI gathering, including packages for data mining, text retrieval and classification, patent searching, Web-page tracking, and Internet monitoring using push technology.

But while advances are being made in the availability of packages that can gather and store CI, a repeated complaint heard among CI users is the lack of software with the ability to analyze data in sophisticated ways for Competitive Intelligence purposes. A CI software survey conducted by the consulting firm of Fuld & Company9 concluded that packages are just beginning to deliver on some of these
needs with the appearance of products that not only pull CI data together but indicate relationships between different business issues. Still, for the most part "intelligence software designed to create intelligence for corporations does not deliver," and these products fall short of the types of actual analysis needed to apply CI to business decisions.

**CI IN PRACTICE**

**Who Uses CI?**

A full 82% of companies with annual revenues of more than $10 billion now have an organized intelligence system, according to a 1998 survey by The Futures Group, a Glastonbury, Connecticut-based consulting firm. Among the next largest tier of companies, those with revenues of more than $1 billion, 60% have an organized competitive intelligence system. While many of these larger companies have department dedicated to CI, mid-sized companies tend to hire CI firms to gathering and analyze intelligence, while smaller business owners do it themselves.

**TOP INDUSTRIES REPRESENTED BY SCIP MEMBERS**

- CI Consulting
- Chemical/Pharmaceutical
- Communications/Telecom
- Computers/Hi Tech
- Defense/Aerospace
- Financial Services
- Energy
- Consumer Products
- Industrial/Manufacturing
- Health Care
- Agribusiness
- Service Sector
Does CI Add to the Bottom Line?

Competitive Intelligence operations can pay off. A 1995 study by academics at the University of North Texas found that businesses that emphasized CI generally outperformed those that did not in three areas: sales, market share, and earnings per share. The study suggests that "there is a positive relationship between emphasis on CI and successful financial performance." CI companies outperformed other companies by all three key financial measures considered in this study: average sales, market share, and profitability." For instance, "the average sales of CI companies in 1993 were $9.80 billion compared to other companies in the same industry whose sales averaged $1.02 billion....The average market share for CI companies was 5.4% compared to 0.8% for other companies....A positive relationship was found between emphasis on CI and profitability as measured by average earnings per share. CI companies had an average EPS of $1.24 compared to other companies in the same industry that posted a net loss for this measure of $0.07. CI companies performed better than other companies on this measure in 15 of 19 industries."

In conclusion: "This study found empirical evidence to show that companies that emphasize CI on average outperformed other companies in three important financial measures: sales, market share, and earnings per share. Moveover, this pattern of results help up across industries -- in more than three fourths of the industries considered on all three performance measures."

Where Do CI Professionals Work?

About 77% of SCIP members work in corporations, while 17% are independent consultants or work for a consulting practice. Another 2% are academics, and 3% are students. The top five industries represented by SCIP members are 1) Consulting; 2) Communications; 3) Chemical/Pharmaceuticals; 4) Information; and 5) Defense/Aerospace. The 77% of SCIP members who are corporate CI professionals designate their corporate role as follows: CI or Analysis – 34.8%; Market Planning & Research – 25.4; Information Center/Services –
11.2%; R&D, Business Development, & Product Planning – 9.8%; Strategic Planning – 8.2%.

For a Typical CI Professional…

Society of Competitive Intelligence Professionals, membership survey, 2001
What do CI Professionals Earn?

In a 2000 SCIP membership survey, the average salary for a senior CI analyst is $62,544 (in a 1997 survey, the average salary for this position had been $57,756). As in previous surveys, job title and years of professional work experience were important factors affecting salary. The average salary for a Vice President of Competitive Intelligence is $104,800, while a CI Director typically earns over $90,000.

The survey also reaffirmed earlier findings that education and specialization are related to salary. For example, CI professionals with a doctoral degree typically earn $88,000, well above the average.
The *mean* salary earned by SCIP members, according to the survey, is $67,393. In comparison, the Special Libraries Association reports that in 2000 the mean salary earned by its members was $55,806.

Survey results were analyzed by all relevant categories, including job title, area of work, professional experience, education, and geographic location. Moreover, respondents were asked for details about their backgrounds (a plurality, 47.3%, majored in "business/marketing"), CI experience, and job functions, including to whom they report.

**What Is the Typical Budget for CI Operations?**

An overview of corporate CI operations also emerged from the survey, including spending/expenses, number of employees, work hours, education/experience levels, and more. Over 25% of respondents said their company's total CI spending in 2000 topped $100,000. Almost 14% said their company spent over $500,000, and 5.4% (apparently interpreted "Competitive Intelligence" rather liberally) said their company spent more than $1 million.

**COUNTER-INTELLIGENCE**

As Competitive Intelligence is more widely integrated into corporate research and planning, so too is the practice of counter-intelligence -- that is, safeguarding your company's data from intelligence efforts by other firms, either legally or illegally (not all intelligence operatives are SCIP members). Ensuring corporate security has become an increasingly important part of Competitive Intelligence work.

**CONCLUSION: STAYING 'HYPERCOMPETITIVE'**

In a global economy saturated in data traversing the earth in nanoseconds, the need to turn competitor information into actionable intelligence has never been greater. CI professionals are pledged to providing their companies with the tools needed to stay fast, focused, and flexible, so as to secure and keep a position of competitive advantage.
RECOMMENDED READING


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