AWARE White Papers

Note: This paper was originally published in the Proceedings of the Online Information Conference '99 Pages 225-227
A variation on this paper formed the basis of a lecture given at the October 2000 SCIP Europe Conference. .

Competitive Intelligence:

Tactical Information or Strategic Wisdom?

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Abstract: *Strategic planning requires an ability to plan several years into the future – anything less is effectively a tactical decision taken to meet a current need. Competitive analyses that only use historical evidence of competitor activity based on the signals competitors give out to the market cannot meet this need for future planning – and as a result the information provided is essentially tactical rather than strategic. The pace of market change means that businesses that fail to use techniques to anticipate future situations are at risk. Such techniques include PEST analysis, Inferential Scanning and Scenario Analysis. The UK credit information industry provides an example of how industries can change within a few years.*

Keywords: Strategic planning, future planning, scenario analysis, inferential scanning, PEST analysis, change, market change, competitive analysis, competitor, competitive intelligence, credit information.

Introduction

A recent definition[(1)] of strategy described two elements – future intent and sources of advantage. Future intent was seen as the development of a long-term, far-reaching view along with a commitment to achieving it. Another definition[(2)] defines strategy as the "pattern of decisions that intentionally or otherwise sets the long-term direction of the company and determines its fate". Michael Porter[(3)], discussing strategy planning says that part of the process must look at how a company's industry will evolve and how the firm can be best positioned to compete in the long-run.

Essentially, strategic decision making involves anticipating future developments and planning accordingly. Many managers talk about competitor strategy. They will discuss how an analysis of their competitors' actions led to their company taking this or that strategic decision. However many of these "strategic decisions" only address the immediate issue and look no further forward than a year or two at the most. Such decisions should not be viewed as strategic. Strategic decision making should look at the long-term - two or more years ahead. Anything less is essentially a tactical decision. Nevertheless businesses do need to plan longer-term but decisions cannot be based purely on a simple analysis of a competitor's current and historical actions.

Market Signals

A company's key indicator of a competitor's future actions, plans and strategies are the evidence it leaves in the market place:

1) the interview with the CEO prior to a new product launch,
2) company announcements,
3) the organisational restructuring,
4) the application for planning permission for a new factory,
5) the job advertisements for the new location or division,
6) the filed patent,
7) the promotional re-launch,
8) mergers and acquisitions,

and so on.

All of these, however, look at events already in progress. For a patent to be filed there needs to be prior research or development, that may not have reached the public domain. Before the new position job advertisement, or the planning permission application, decisions will have been taken internally on the company's strategic needs. Such decisions are unlikely to be publicly available.

Essentially all market signals relate to historical actions - and as such cannot safely be viewed as indicators of a competitor's strategy in five or more year's time.

Market Change

An alternative approach has been to look at competitor's reaction profiles. These use several historical events and an understanding of the competitor's culture to create a picture of how they are likely to react to any particular market event. The problem with this approach is that it is also historical - and moreover, tries to extrapolate from past behaviour to the future. This may have worked when change was slow and steady, and management remained in place for many years. In today's world such assumptions are dangerous:

- The impact of e-commerce is changing the ways companies do business, relate to customers and suppliers and distribute and acquire products;
- De-layering and the flattening of management hierarchies has led to radical business change;
- The average major company CEO is replaced every few years;
- One-to-one and relationship marketing techniques have transformed companies approach to their markets;
- Local markets have become regional, and national markets are now global;
- Industry consolidation is leading to fewer, but more powerful competitors.

Such change means that companies can no longer assume that what happened in the past will continue in the future. Companies are changing their corporate cultures and business approaches faster than ever before - in order to survive. Accordingly, historical reaction profiles may not apply in the future.

The question thus becomes are there any analysis tools and techniques that can allow management to plan for competitor actions five years ahead? Can competitive intelligence lead to strategic decisions rather than just tactical ones?

Planning for the future

In 1903 the President of the Michigan Savings Bank is reported to have advised Horace Rackham, Henry Ford's lawyer not to invest in the Ford Motor Company saying *"The horse is here to stay, but the automobile is only a novelty - a fad*". At the time, the conventional means of transport was the horse and carriage. Cars were novelty items for rich enthusiasts and it is easy to understand the Michigan bank president's mistake. But in business, such mistakes lead to costly failures. Business history is littered with examples where companies have failed to anticipate such threats. So the first task is to be open to new ideas and not to dismiss them out of hand. One needs to challenge conventional wisdom, assumptions and preconceptions. However this is not enough - the business analyst also needs a way of distinguishing the fad and novelty from the long-term change.

The key to anticipating future competitive threats is to take a holistic approach. It is not sufficient to look at a competitor in isolation, or even at the overall industry and industry players such as suppliers and customers. Instead one must look at the overall business environment and for trends and changes in this environment. These will impact all players - one's own company, competitors and the overall industry.

One technique is to look at what are sometimes called PEST factors. This examines the Political, Economic, Socio-Cultural and Technological/Environmental factors impacting the firm and industry. Common factors affecting many industries are:

1) more discriminating and demanding consumers 2) an ageing population 3) increasing demands for leisure and the means to enjoy it	Socio-cultural
4) greater workplace flexibility 5) increasingly global trade and competition	Economic
6) increasing reliance on IT at all levels of society 7) ubiquity and commoditisation of information 8) continuing environmental pressures and expectations	Technological / Environmental
9) apparent democratisation of political processes 10) decisions regarding adoption of the *euro* as a currency, replacing national currencies.	Political

Ultimately the information specialist needs to look for and identify the drivers for change. Such forces shape the competitive environment. They impact political thought, and can lead to economic and even socio-cultural change. Often the origin for a change can be traced back to a technological innovation - and the ripples that spread out from many such innovations can be difficult to predict. (Who, in the 1960s, could have predicted how the birth-control pill would impact the whole cohesiveness of society, with changes in attitudes to morality, marriage, and gender.

More recently, at the start of the 1990s how many people predicted the impact of the Internet on current business.).

There are at least two approaches to identifying key drivers for change. The first looks for trends repeated in different areas becoming more dominant over time. The take-up of the motor car in Europe and North America, and by different manufacturers is an example. The second approach attempts to identify trends before they become obvious. This approach, known as Inferential Scanning(4), looks for anomalies and departures from the norm. When an anomaly starts to appear regularly in different areas, it ceases to be an oddity - and becomes an indicator that something new is happening. This is often the precursor to a change that may be significant. An example is the success of auction web sites such as Ebay. The online auction concept has since spread – and several commercial organisations, such as Israel's national airline El-AL, now offer customers the opportunity to bid for products and services, so that the customer rather than the supplier sets the price.

Both approaches take a cross-factor view looking for broad-brush patterns where a change impacts several of the PEST factors at the same time. A recent example is the growth and impact of biotechnology. Originally a technological innovation, fear of the environmental impact of genetically modified (GM) food and "science-as-god" apprehensions have led to socio-cultural changes, with UK supermarkets refusing to stock GM foods and some politicians looking at legislating against the development. As a result, a simple technological advance has had an impact across each of the PEST factors.

Having identified the drivers for change, the analyst looks at how these could impact the industry. It is only at this point that the current strengths and weaknesses of individual firms should be taken into account.

Scenario analysis(5) was developed as a technique during the early 1970s and has proved to be effective at anticipating environmental and business change. The technique can be used to look at possible developments in the overall business environment, at an industry level or to provide alternative futures for individual competitors(6). Thus scenarios can be developed for each firm, examining their capabilities and how they could react to the identified drivers. For example, if, as a result of the environmental analysis and a knowledge of competitors' current positioning it appears that a particular competitor is best placed to take advantage of an emerging opportunity, then one scenario should take this into account. This is where competitive intelligence can lead to an effective long-term strategic decision. Having identified this potential opportunity, the firm can take actions that will allow it to take advantage also - or lessen the likelihood that the competitor will be in a position to do so, or both.

It is important to stress that there is a considerable degree of uncertainty in the process - and as a result, the analyst should not be constrained by competitors' current behaviour profiles. These may change - as a result of a change in management, for example. The analyst also needs to be aware that industries can change radically within a period of years due to acquisition and internal structural changes. The potential for such changes must also be examined.

The UK credit information industry - a case study in industry change

In the early 1990s, the major players in the credit information industry within the UK were Dun & Bradstreet, Infolink, Infocheck, CCN, ICC and Graydon along with a number of smaller players. Of these companies only Dun & Bradstreet and Graydon were parts of international organisations. Today, Infolink, CCN and Infocheck have disappeared as separate entities, while the original ICC split into six (now five) separate businesses covering the company's various operations.

Infolink and Infocheck were both acquired by the US credit information provider Equifax - which now also has other subsidiaries elsewhere in Europe. Prior to 1990 Equifax had made no moves outside the US since the 1930s when it entered Canada.

CCN, owned by the catalogue retailer GUS, merged with a leading and larger US credit information supplier and changed its name to Experian. The billion pound merger came after GUS had appointed a new chief executive and was GUS's first major acquisition since 1969.

Of the players of the early 1990s only Dun & Bradstreet, ICC and Graydon remain. A competitor analyst looking forward needed to look at the potential for such change and the impact it has had on the overall structure of the industry. Both the Experian merger and the Equifax acquisition are examples of how companies can change historical behaviour patterns almost overnight, as neither Equifax nor GUS had been acquisitive or expansionist.

Perhaps as important has been the impact of IT on the industry. In the mid-1980s only Dun & Bradstreet offered a full online system. Quickly competitors followed. The paper-based databases were replaced by mainframe systems with dedicated dial-up lines so that customers could order credit reports. Credit scores, which had been manually coded are now automated and the Internet is emerging as the delivery system for the next decade. Yet in the early 1990s few had heard about the Internet. Infocheck was the first credit information company in the UK to look at its potential in 1993 - and competitor analysts within D&B were quick to spot the risk and evaluate the potential of this medium.

Identifying, analysing and understanding the impact of new technologies is a crucial skill for effective future planning. In the case of the credit information industry they have dramatically reduced barriers to entry and new competitors have entered the market while companies from adjacent market sectors have revamped products so as to compete with those from the traditional players. A company whose long-term plans were based on a “business as usual” philosophy that did not anticipate the changes that occurred would have, at the very least, lost market share – assuming that they remained in business.

Conclusion - From tactics to strategy

Part of the strategic process must be to look at how industries can change and to anticipate potential changes and plan accordingly. This should not just be by looking at a single competitor but rather at the industry and beyond. The individual competitor is just a part of the jigsaw that makes up the industry - and jigsaw pieces can be joined together or lost. Competitive Analysis can only result in tactical short-term decision making unless the wider picture is also included. It is then that the firm gains the real intelligence – the strategic wisdom - that allows it to make the decisions that will take it five, ten or more years forward into the future.

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