

Legal Espionage

Competitive intelligence doesn't involve any dark alleys, secret handshakes or Swiss bank accounts. In fact, it's quite legal. So why are you ignoring it?

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Reader ROI

Companies that consider competitive intelligence (CI) when making strategic decisions have a major advantage over their competitors. Yet many executives don't even know what CI is. Read this article to learn

▶ How CI can benefit your company (it could save you millions)

▶ The surprising number of ways there are to learn about your competitors

▶ How to protect your company against competitors' CI efforts

COMPETITIVE INTELLIGENCE IS ONE OF the most powerful weapons available to executives today. Companies that employ competitive intelligence (CI) to anticipate external forces prevent countless bad decisions, save millions of dollars and reap advantages over current and future competitors. With results like these, one would think most companies would have top-notch CI programs in place. Wrong. Most companies fail to exploit this simple yet powerful strategy. And the fault lies with the very people who need good intelligence the most--executive decision makers.

Although 90 percent of Fortune 500 companies have an intelligence group, less than 10 percent of senior managers understand CI and use it wisely, says Jan Herring, president of Hartford, Conn.-based consultancy Herring & Associates Inc. and former director of business intelligence at Motorola Inc. Talk about a waste of money. Companies may spend millions on Lotus Notes, an intranet and other intelligence tools that collect and disseminate data, but if critical information isn't getting to key decision makers, these resources become little more than expensive dust collectors.

"It's appalling how little information most CEOs have," agrees Robert E. Flynn, former chairman and CEO of The NutraSweet Co. and now chairman of the board at AMBI Inc., a microbiology company in Tarrytown, N.Y. "They may have some information that comes up through the organization, but it tends to be filtered, massaged and cleaned up. It's exceedingly important for CEOs to get powerful market information--even if it's in raw form, not put together by a marketing vice president--that says, 'Your product stinks, you dummy.'"

Required: A New Way of Thinking

Unlike most business tools or management theories that are widely reported on in the press, it's difficult for executives to find information on how companies are using CI to get ahead. The reason is simple: Given the competitive nature of CI, many companies won't even admit they do it, much less describe how or why. Further, many executives mistakenly confuse CI with espionage and, fearing possible legal consequences, want nothing to do with it.

"A large percentage of business managers just have no way to learn about this subject," explains Herring. "It's not taught in business schools, and it isn't seen as a management discipline." CI is filled with uncertainty and

requires a futuristic outlook, which conflicts with the business fundamentals that executives are conditioned to care about. "[Executives are taught] to analyze historical events and financial statements, things that have already happened," says Ava Youngblood, business intelligence manager for Amoco Corp.'s corporate strategic planning group in Chicago. "Intelligence is asking you to look at what might happen.... It's asking executives to make a decision based on some uncertainty and that's not what they want. They're risk-averse and not comfortable with looking to an uncertain future."

In addition, many executives, already inundated with an ocean of information, have little time to listen to intelligence reports. And because these reports often originate from employees without access to the executive suite (for example, sales reps and engineers), managers may be leery of their value. It's the "Don't sell me insurance, son" mentality, notes Michael W. Braham, director of CommGuard, Bell Atlantic Federal System's Enterprisewide Continuity Planning Group in Washington, D.C.

By Definition

Competitive Intelligence

(CI): the collection and analysis of public information to paint a picture of a company's competitors, customers, market or industry. Unlike its dark sister espionage, CI is completely legal and ethical.

Still other executives reject CI because they share that peculiar human foible of not wanting to change the way they do things. They assume there's no need to alter the management style that gained them entree into Mahogany Row in the first place--never mind that that's the kind of thinking that can lead to oversights of Apple Computer proportions. "The premise is that the reason these people got to where they are is [because] they're smart, they made the right decisions," says Steve Shaker, director of business intelligence at WarRoom Research LLC, a consultancy in Annapolis, Md. "Gut instinct used to be great when things didn't change much; you could use your past experience as a basis for what will happen. But today, with the impact of IT and [globalization], the world moves so quickly that past experience isn't as valuable."

Even the most forward-thinking companies share some of this myopia. For example, Amoco, the \$36 billion chemical and petroleum giant, is one of an elite class of companies in which the executive committee wholeheartedly supports the CI effort. The CEO always relies on intelligence to help make decisions such as what is the cheapest and most effective way to enter into a new market, according to Youngblood. Yet Youngblood, who is also president of the Society of Competitive Intelligence Professionals (SCIP) in Alexandria, Va., still struggles to get the executive team to think beyond delivering shareholders short-term successes and to heed the early warnings CI provides. Before they are willing to act on the advice of the CI organization, Amoco managers invariably go through the stages of denial, anger and ambivalence until reaching acceptance. Youngblood tells her people, "If you see denial, you're having an impact. If you get anger, you're getting even more of an impact."

Support Your Local Intelligence Group

For all the reasons executives ignore CI, there are many more compelling reasons to embrace it. Simply put, CI generates mammoth bottom-line results. And there are many other unquantifiable benefits. "What's the value

of competitive intelligence? I might be able to give you three or four years' lead time on new technologies coming out. What's the value in that?" says Jonathan L. Calof, associate professor of administration at the University of Ottawa.

Flynn is one of the few executives willing to go on record with how much CI was worth to his company--he said in a speech that it had saved NutraSweet more than \$50 million per year. At the time of Flynn's departure, NutraSweet's tabletop product became part of Chicago-based Benevia.

Benevia stopped conducting CI when its patent on aspartame ran out, says Flynn. But when NutraSweet still had the patent, CI was a critical resource in fending off competitors.

In 1990, two years before the patent ran out, the company started hearing rumors about other companies preparing to low-ball aspartame prices and negotiate deals with NutraSweet's customers. "We knew that if we guessed wrong and our customers weren't bluffing, we could lose two-thirds of our business," says Flynn. "CI was incredibly important in trying to gauge which companies around the world were in a position to build aspartame plants and produce a quality that would be acceptable to Coke and Pepsi." Using EPA filings, zoning documents for competitors' manufacturing facilities and conference proceedings at which competitors spoke, NutraSweet assessed its competition and offered discounts to all the right customers. "We ended up maintaining all of our customer relationships," says Flynn.

Because Flynn was directly involved in NutraSweet's CI process, he had access to intelligence that might otherwise have been blocked due to internal politics. Often, the CI group's findings conflicted with the inclinations of other departments. For example, when several executives wanted to expand into a new market, CI said the plan was inadvisable because that country's government was determined to protect its sugar industry and would never allow an aspartame plant on its soil. Similarly, when NutraSweet's marketing department pushed to launch an \$86 million brand positioning campaign, CI determined it would be a waste since the company's closest competitors were at least five years behind. Flynn often went with CI's recommendations over those of other departments. "The CEO has to take his staff and senior management along so they don't take potshots at the CI people," he says. "It puts the CEO in the middle--but then again, it's better to be in the middle before the fact than after the fact."

Monitor the Horizon

Another reigning monarch in the field of business intelligence is Motorola. The Schaumburg, Ill.-based company regularly keeps tabs on the global marketplace. In the 1980s, when Herring was at Motorola, his group provided intelligence support to the company's executive committee and Motorola divisions worldwide. If it hadn't, the company would have been slow to react to the competitive threats it faced abroad. For example,

Motorola employees in Australia and New Zealand noticed that a Japanese competitor was introducing a new marketing plan in the region. They passed the news on to Herring. As it turns out, the competitor was using the market as a test bed for a new brand strategy. "Because we were alerted, we were able to prepare ourselves to compete with the new strategy before [the competitor] brought it into the United States or Europe," says Herring. "The point is in another company, this information never would've been shared across the company."

Milpitas, Calif.-based networking products vendor Larscom Inc. also constantly monitors the competitive horizon by examining industry trends and competitive product releases. "A lot of companies in our industry advertise a new product well before it hits the market," says Market Research Manager Amy Berger. "That's a given in high tech--it's called hype. If we find out that a company is planning on releasing a certain box in nine months, then it gives us time to consider how we may want to add to our product line."

Larscom executives also rely on CI for strategic and financial planning. For example, industry intelligence cinched Larscom's decision not to invest in a certain product area because of the established momentum of the top companies in that market. CI also helps the company boost its desirability to potential stockholders. "We've been public for 15 months, and we've actually started monitoring how we match up as a company against comparable companies in terms of revenue per employee and time to market," explains Paul Strudwick, vice president of strategic planning and development. "Because if the stock price is low, it limits our abilities to do mergers and acquisitions. If we can understand why we're positioned at an advantage or disadvantage then it helps us grow the company."

"I'm responsible for the basic direction of the company," continues Strudwick, who is convinced that CI has been a major factor in Larscom's annual 30 percent growth rate. "I know there isn't much attention paid to competitive research and intelligence by others, but as far as I'm concerned, doing business without CI is like trying to sail through the harbor in the dark. Even if you know where the land is, there might be other boats that you can't anticipate. Not knowing who else is out there can leave you blindsided."

When your company navigates uncertain waters, competitive intelligence makes an excellent foghorn.

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