Performance/Risk Integration Management Model – PRIM²

Early Mover Series:
Maximizing the Value of Competitive Intelligence
Introduction

There is a Chinese saying:

- *Know thy-self, know thy competition, and get it right almost every time.*
- *Know thy-self, not know thy competition, and get it right about half the time.*
- *Not know thy-self, not know thy competition, and get it wrong almost every time.*

– Attributed to Sun Tzu, from *The Art of War*, an ancient Chinese military treatise

Sun Tzu’s words have stood the test of time. Companies cannot become effective early movers without first understanding market opportunities and risks – both for themselves and their competition. With the intent of helping companies become early movers in the marketplace, Protiviti’s *Early Mover Series* focuses on various aspects of Protiviti’s PRIM² framework.¹ In “Analyzing Strategic Risks,” the first paper in this series, we define an “early mover” as a firm that quickly recognizes a unique opportunity or risk and uses that knowledge to evaluate its options before the opportunity or risk becomes widely known. Early movers have the advantage of time, which brings with it more options for decision-making as market shifts either (1) create opportunities for entering new markets, introducing new products, acquiring new businesses and initiating new innovations (which we refer to as “market exploitation opportunities”), or (2) invalidate critical assumptions underlying their strategy, such that the strategy no longer reflects marketplace realities (a condition we refer to as “industry dissonance,” the risk that strategic assumptions lag behind industry realities and the corporate strategy does not reflect the new conditions).²

In “Analyzing Strategic Risks,” we focus on industry dissonance, that is, the risk that an organization is executing an obsolete strategy. In “Maximizing the Value of Competitive Intelligence,” we focus on both market exploitation opportunities and industry dissonance. The fundamental question we ask is, “How do companies know what they need to know before it is common knowledge?” The answer lies in maximizing value from a well-defined and focused function within their organizations that is charged with the responsibility to monitor what really matters – the competitive intelligence function. The effectiveness with which companies maximize the value of competitive intelligence will determine whether they are successful in positioning themselves as early movers. In this paper, we continue to focus

¹ Protiviti’s white paper, “The Convergence of Corporate Performance Management and Risk Management,” provides a framework, which we call PRIM², for integrating strategy, risk and performance management. The central premise of the paper is that a company must consider how an integrated approach and discipline to deploy strategy and manage the associated risks can deliver superior long-term enterprise value. This premise applies whether the company is rapidly growing, focused on establishing sustainable competitive advantage, or both. This white paper, which provided the impetus for Protiviti’s *Early Mover Series*, is available at [www.protiviti.com](http://www.protiviti.com).

² The term “industry dissonance” was developed by Benjamin Gilad in his book, *Early Warning: Using Competitive Intelligence to Anticipate Market Shifts, Control Risk and Create Powerful Strategies* (2004, AMACON, New York). Mr. Gilad attributed the term to Leonard Fuld, a pioneer in the field of competitive intelligence.
on the governance layer of our PRIM² framework (see Figure 1) by exploring the impact that insightful intelligence about market changes can have on an organization’s competitiveness. Topics covered include:

- The importance of the competitive intelligence function in identifying opportunities and strategic risks earlier than competitors
- The scope of competitive intelligence as compared to areas such as competitor and business intelligence
- The competitive landscape that an effective competitive intelligence function must monitor
- A broader approach to the overall competitive intelligence cycle

**WHAT IS COMPETITIVE INTELLIGENCE?**

Competitive intelligence is commonly understood to comprise the action of defining, gathering, analyzing and distributing intelligence about innovation, customers, competitors, government actions, and any other aspects of the market environment necessary for effective decision-making. As a process, competitive intelligence gathers information about the external environment, converts this information into relevant and timely intelligence, and then utilizes this intelligence to analyze key factors impacting the company’s strategy. In other words, competitive intelligence looks at the many disparate elements in the business universe that affect a company’s ability to compete, but does so in a way that ensures it is focused on the elements that matter most.

A more focused definition of competitive intelligence – and we believe a preferred one – describes it as the function responsible for the early identification of both market exploitation opportunities before they become obvious to others (at which point, opportunities are lost) and industry dissonance before market forces threaten the organization (i.e., the company becomes captive to events). The reason we prefer this definition is that it focuses attention on the difference between the mere dissemination of widely available factual information (such as market statistics, financial reports, news releases, etc.) and competitive intelligence providing a perspective on developments and events aimed at yielding a competitive edge in the marketplace. An effectively focused competitive intelligence function (CIF) has the ability to monitor those business assumptions, market conditions and potential risks that are most critical to the execution of an organization’s strategy. The key tenet of our definition of competitive intelligence is that it can no longer be an ad hoc activity or simply result from having an informal eye over the competition. Competitive intelligence can make or break a company’s ability to survive and thrive in a rapidly changing market.

In 2000, a global business software and hardware systems company hired detectives to rummage through the trash of an organization using a competitor’s software. A similar incident raised a furor a year later, when a global consumer products company admitted that employees had hired investigators to rifle through a competitor’s garbage for product secrets. These kinds of activities may reflect a common perception of corporate intelligence gathering. However, don’t confuse gathering information on your customers and competitors with spying or espionage.
WHY IS COMPETITIVE INTELLIGENCE MORE IMPORTANT NOW?

Since competitive intelligence is not a new concept, why should management pay more attention to it now? Historically, management at most organizations placed more focus on improving internal structures, processes and systems due to a more predictable market environment and a strong emphasis on managing performance variability. However, today's senior management team must dedicate as much attention to external market events and developments as to activities within the organization. The new reality is that stable, predictable markets are now relics of the past. The combination of more mature, automated processes and market globalization, including faster technology innovations, elevates the likelihood of swift market changes impacting management’s strategy and business model to the point where they are almost inevitable. While internal process performance issues will always be important, the relevancy of the strategy and business model is even more so in a rapidly changing and uncertain world.

Our definition of competitive intelligence requires a system focused on the four phases of the competitive intelligence life cycle – monitor, assess, communicate and act. It places competitive intelligence as a key process for positioning the organization to become an early mover. In the context of attaining early mover status, there are four reasons why competitive intelligence is important:

• First, it is focused on identifying market exploitation opportunities that contribute to establishing a sustainable competitive advantage within the industry. This emphasis on identifying enterprise value-creation opportunities should position the reporting lines of the CIF to reach the highest levels within the organization and makes intelligence gathering an offensive tool rather than a defensive exercise. Unfortunately, many CIFs in place today continue to work in a reactive mode, focusing on identifying events after they take place rather than developing market insights.

• Second, it incorporates monitoring the vital signs identified from contrarian analysis applied to the critical assumptions underlying the strategy, with an end goal to reduce industry dissonance risk to an acceptable level. This particular point is an important distinction because it is our view that many companies do not make this critical connection of positioning the CIF as a tool for protecting enterprise value that has taken decades to build.

• Third, its success is measured based on its effectiveness in driving responsive management action and enhancing the prospects for superior longer-term business performance. This discipline and emphasis create an edge to the intelligence gathering process and, with the help of a supportive tone at the top, forge partnerships with operations through a high mutuality of interest, giving everyone a stake in the CIF’s success. While this particular point may not be new, execution is often lacking in this regard.

• Finally, it is comprehensive in scope, covering all aspects of the competitive intelligence universe (see Figure 2 on Page 6) rather than being limited to pricing or other tactical issues. It seeks to integrate the intelligence gained from the analysis of multiple sources of data and information with the objective of identifying the insights and trends that can make a difference in exploiting opportunities and identifying emerging risks. In effect, a CIF is the CEO’s “eyes and ears” in a rapidly changing world.

The above four points of emphasis are distinctive attributes of an effective CIF. They clearly place the CIF in a strategic role, making it an integral part of the strategic management process. Below, we discuss how to ensure the CIF makes strategic contributions that help position the organization as an early mover.

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THE OBJECTIVES OF COMPETITIVE INTELLIGENCE

One of the most important aspects of an effective governance structure in today’s hyper-competitive times is an effectively focused CIF. The process of providing direction, or focus, to intelligence gathering starts with defining the critical assumptions underlying the corporate strategy. These assumptions, or “white swans,” represent management’s view of the environment in which the enterprise will operate its business model during the planning horizon. They pertain to such attributes as the enterprise’s differentiating capabilities, competitor capabilities and actions, customer preferences, technological trends, capital availability, raw material or commodity prices, sustained business operations, and regulatory trends, among other things. Changes to these factors could have a material impact on management’s key assumptions, presenting new opportunities or unforeseen risks to the business.

In today’s dynamic and complex business landscape, the time horizon for decision-making becomes shorter with each passing day. In such a demanding environment, an effective CIF has two key objectives – the first is to maximize market opportunities by providing the information necessary for capitalizing on emerging opportunities such as new markets for existing offerings or fresh revenue streams, which can lead to growth and added value for stakeholders. Such opportunities could also address new ways for a company to deliver value to customers or reconfigure existing products and services to fill an unmet need in the market. Businesses are driven by profit – in order to remain competitive and sustain a position of leadership within the competitive landscape, they need to expand their interests into promising and profitable growth areas.

The second objective of an effective CIF is to minimize the threat of industry dissonance or reduce the element of surprise. This can be accomplished by gaining a better understanding of the warning signs and the actions a firm might take in executing its strategy or even revisiting certain aspects of the strategy itself. The antithesis of a critical strategic assumption is a contrarian statement describing the event, or combination of events, that renders the assumption invalid. Those contrarian statements that are likely to have the greatest impact on the company if they transpire are so-called “black swans,” which reflect situations that would likely arise from events the organization currently lacks sufficient information about and for which management would likely ask after the fact, “Why didn’t we see it coming?”

Contrarian statements provide a context for identifying key variables a CIF should monitor over time to address the question, “How would we know if the critical assumptions underlying our strategy are no longer valid?” This fundamental question is what every effectively focused CIF must address. Market environments never remain static, and companies that fail to recognize the dynamics of change and adapt accordingly are overrun by others who do. Contrarian analysis lays the framework for building an early warning capability.
WHAT COMPETITIVE INTELLIGENCE IS NOT

“Intelligence” has several related dimensions and scopes – and as new concepts have evolved, there often is an overlap in understanding these varied agendas. This overlap contributes to confusion over what competitive intelligence really is. Following is a discussion of some of the concepts and misconceptions.

Competitive intelligence often is incorrectly thought to be synonymous with competitor intelligence, but it is much broader than simply analyzing competitors. Competitors are only one element in the overall landscape that a CIF should monitor.4 While it is useful for an organization to know what its competitors are doing and anticipate their strategic responses to different scenarios, limiting an intelligence function to analyzing competitors would not yield a competitive edge for several reasons:

a. What good comes from knowing a competitor’s strategy retrospectively if it only gives insights that reflect changes in the marketplace that are possibly dated? Past competitor behavior must be viewed along with other relevant factors.

b. What if competitors’ strategies are erroneous or based on inaccurate information? What if the industry is in decline or faces the prospect of a disruptive change? History is replete with many examples of companies that were once leaders in their respective markets but fell behind due to being myopically focused on their competitor’s actions.

The key is that organizations need to invest in building a robust intelligence function themselves, as opposed to merely following a leader who may be headed toward a cliff.

Competitive intelligence is not limited to market research. Similar to competitor intelligence, market research also focuses on one element of the competitive landscape: the organization’s customers. Market research is a quantitative, measurable, outcome-focused process that relies on surveys and questionnaires to gather data and then applies statistical tools to draw out trends reflecting changing customer preferences and opinions. Competitive intelligence, on the other hand, is about providing an actionable perspective on changes in the overall business environment, inclusive of changing customer preferences, that can impact the outcome of corporate strategies and the design of company processes and products.

Competitive intelligence is distinctly different from business intelligence (BI), which tends to be more inwardly focused and is characterized by quantitative results. BI functions in organizations are supported by BI platforms – software applications and services that provide analytics, as well as predictive capabilities. Competitive intelligence is more qualitative in nature – it focuses on identifying trends and a “strategic inflection point” in the business environment that typically are external to the organization.5

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5 A “strategic inflection point” is further discussed in Protiviti’s white paper, “Analyzing Strategic Risks,” available at www.protiviti.com. The term was coined by Andrew Grove in his book, Only the Paranoid Survive.
“Change is the only constant” is a phrase that correctly captures the dynamics of the business environment today. New technologies enable the development of products and services that just 18 to 24 months earlier were not even imagined. Globalization, while increasing competition, also provides organizations opportunities in new markets and with new business partners. Changes in social trends also impact the demand for an organization’s products and services. Business models must be “lean” to minimize operational costs without any adverse impact on the quality expected by customers. Regulatory changes and stringent compliance requirements also can significantly impact an organization’s operations.

Management teams must be able to process information from various sources and, in doing so, adjust to new business realities and minimize prior biases in the decision-making process. However, even the most seasoned executives in organizations can fall prey to “blind spots” – internal convictions that relate to the future direction of the industry and marketplace in which the organization competes. These convictions may be out of line with evolving markets and prevent executives from adjusting organizational strategies, thus increasing exposure to strategic risk (i.e., lost market opportunities or a dissonance between existing strategies and the business environment).

A robust CIF monitors the overall competitive landscape for an organization, enabling strategy-makers to identify new opportunities and mitigate strategic risk at the most opportune time. More important, it provides insights that may challenge an organization’s blind spots. As organizations strive to become leaner to streamline costs, improve productivity, achieve greater operational efficiency and/or sustain or regain competitive advantage, the CIF serves as a catalyst for change, adding value to the top and bottom lines, when implemented correctly. As shown in Figure 2 (which illustrates the competitive intelligence universe), the intelligence gathering function should address a number of elements defining the scope or domain of the function. However, it must be

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Figure 2. The Competitive Intelligence Universe

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6 Early Warning: Using Competitive Intelligence to Anticipate Market Shifts, Control Risk, and Create Powerful Strategies, by Benjamin Gilad, 2003, AMACOM.
acknowledged that each of these elements will not have equal impact on organizations with different business models in disparate industries. It is important for management to understand which of these elements has a higher degree of impact and relevance to the organization’s strategy and ensure the CIF has an appropriate focus. This understanding begins with recognizing the sensitivity of the strategy to market developments (e.g., interest rates, weather patterns, customer preferences, fuel prices, new technologies).

Each of the elements in the competitive intelligence universe is discussed briefly below.

**Customers** today are empowered with knowledge – not just from sources such as advertising that is controlled by an organization and its competitors, but by uncontrollable external sources from which product and service information is readily available, such as consumer-to-consumer content sharing by homogeneous groups of people. Customers making purchasing decisions have more choices than ever before. Organizations need to be fully aware of these dynamics and respond to them by understanding customer trends and preferences that influence demand.

**Suppliers and distributors** are critical to the success of an organization’s operations and supporting value chain. Apart from being important to the effectiveness and efficiency of the company’s internal processes, they also have a relevant view of the industry to the extent they are closer to the source of supply and to customers.

**Competitors** can change the dynamics of an industry in several ways. For example, they can adopt new strategies that could affect an organization’s current strategy, and introduce new products and services that become substitutes and impact an organization’s market share.

The pace of **technological advancement** and **social/demographic changes** has also increased significantly in recent years. While just a few decades ago a major change in technology took 15-20 years to take hold, the time span for technological advancements today has shortened by a significant margin. Organizations need not only to keep themselves informed of such changes, but also form an actionable perspective quickly to identify and seize the opportunities posed by change.

In addition to the above elements, a CIF must focus on **macroeconomic trends** in the business environment – such as changes in demographics, new geopolitical developments and the economic outlook – as well as changes in the **regulatory environment**.

In summarizing the elements defining the domain and focus of a CIF, it is important to understand that they do not, in and of themselves, provide the benefits of intelligence gathering. The benefit comes from being able to implement and integrate changes in these elements successfully into a composite picture for consideration by decision-makers. While establishing a CIF can be accomplished in a relatively short time frame, elevating the function to undertake a truly organized forward-looking capability can take years of learning and methodical development work. That is why it is important to begin now, because the pace of change in the environment isn’t going to slow down anytime soon.

The good news is that there are some key activities that can be put in place quickly to support the systematic implementation of a comprehensive CIF. These activities include:

1. Establishing the scope, structure and capabilities of the CIF
2. Defining the desired deliverables of the function and the organization responsible for producing these deliverables
3. Implementing the necessary tools and techniques for successful implementation of the intelligence function
4. Managing change within the organization, including the rollout and internal marketing of the function

These four activities should not be viewed as being strictly distinct, because it is rarely meaningful to develop them sequentially. Rather, they should be developed simultaneously to gain more value from the CIF in a shorter period of time.

**ORGANIZATIONAL STRUCTURE ALTERNATIVES FOR INTELLIGENCE GATHERING**

There are varying options for organizations establishing a CIF, each with benefits and drawbacks. As with most analytical functions, there is no preferred structure. Many organizations continue to compartmentalize and limit their external intelligence gathering resources into such roles as a pricing manager. Exclusively using third parties for external information continues to be a common practice for some companies. Others are expanding existing functions, such as finance planning and analysis, to incorporate an enterprisewide and external perspective, referring to the aforementioned group as “planning and analysis.”

While there are many alternatives, below we address three options for deploying the more comprehensive view of competitive intelligence described in this paper.

**Decentralized** – A decentralized CIF is probably the most common structure in practice. In this model, individual business and functional units sponsor competitive intelligence capabilities for their own purposes. The most common functional units to sponsor these capabilities are sales, marketing, and research and development. One of the key benefits of this structure is that the CIF is closer to the operations of the organization and the insights gained from its activities may be more easily acted on. These competitive intelligence activities typically have much more targeted roles and responsibilities, whether they are directed towards customers, the overall market or competitors. Operating units may also have their own intelligence gathering activities, particularly when the units conduct business in distinctly different markets.

One of the drawbacks of a decentralized model is that the organization’s competitive intelligence activities can be disjointed by a lack of overall coordination. This can lead to gaps in coverage and an inability to focus on the validity of strategic assumptions relating to the entire organization. Of course, the more distinctive the markets of the various operating units, the more a decentralized approach may make sense. The concern arises when an enterprisewide focus gets lost.

**Centralized** – The centralized CIF may be the most common structure deployed in smaller organizations simply due to the fact that there are fewer personnel who can be dedicated to intelligence gathering; many companies have a single person providing competitive intelligence. For companies with more than a single individual in the CIF, the benefits of a centralized approach include the aggregation of like-minded individuals who can rely on each other’s strengths and interests to derive synergistic points of view. When a centralized CIF typically reports to a very senior executive, perhaps even directly to the CEO, the company benefits from an expansive view and influence across the entire organization. This structure has the best opportunity to play a strategic role in the organization as a whole and can be a key component of obtaining “early mover” status.

The drawback of a centralized CIF model is that the intelligence gathering process can be somewhat removed from the organization’s operations. To avoid this issue, the function needs to establish formal roles and mechanisms to integrate into the organization’s operations where it can source direct input and feedback. The idea is to forge a partnership so the intelligence gathering capability obtains quality inputs and provides direct value to business operators in return. Another drawback that must be avoided at all costs is the perception that the function is a reporting tool for the executives where their intent is to monitor the activities of line management. In this scenario, the CIF becomes detached from the larger organization, reducing its effectiveness.
**Federated** – A federated approach to intelligence gathering, where various groups in the organization carry out the targeted roles defined by the business unit they support, is gaining in popularity. However, the more these groups operate as a coordinated team, the more successful they can be in leveraging information across units, sharing resources and maximizing the investments in the overall function from an enterprise perspective. If this “virtual” CIF has direct access to senior-level executives, including the CEO, it can enhance its value and become a key component of the strategic decision-making process.

As previously mentioned, there are many alternatives to the competitive intelligence structure within an organization beyond the three mentioned here. When evaluating alternatives, it is important first to establish the objectives and scope of the CIF before turning attention to its structure. The structure of the CIF must fit within the culture of the organization and be seen as a strategic capability to maximize its influence and value.

**AN APPROACH TO COMPETITIVE INTELLIGENCE – BUILDING A SUSTAINED COMPETITIVE ADVANTAGE BY FOCUSING ON THE VITAL SIGNS**

A CIF can be a source of sustained competitive advantage by enabling a firm to develop, implement and monitor strategies that create, as well as protect, shareholder value over the long term. Since the strategy development process is focused on identifying, developing and sustaining resources and capabilities that can create competitive advantage, the CIF can be a valuable and performance-enhancing contributor to the process. The function can make a measurable impact on the ongoing activities and long-term performance of an organization.

An effective CIF needs to provide fast, factual and actionable intelligence to key stakeholders, resulting in better and more informed decisions that ultimately lead to strategic success. The bar should be set high for this function – that is, it must contribute to the effective performance of the firm relative to its competition. And in order to formulate, and implement, effective competitive strategies leading to cutting-edge performance, organizations should have a mechanism in place to collect, process, analyze and disseminate competitive intelligence. As such, an effective CIF should help an organization become an early mover in terms of identifying and capturing opportunities in the competitive landscape before anyone else does; hence, we refer to it as an “early mover system.”

Successful identification of market exploitation opportunities is about obtaining sufficient knowledge and insights regarding economic trends, competitors, customers, suppliers, regulators and other external factors by monitoring them to evaluate changes that may be favorable in terms of presenting opportunities for company executives to exploit before others do. Conversely, while the future will always remain uncertain to a degree, market developments can lead to invalidation of one or more strategic assumptions, leading to industry dissonance. If one can count on anything, it’s that the validity of business assumptions will come under question as the business environment changes over time.

Because market exploitation opportunities and industry dissonance risks are the flip sides of the same coin, an early mover system can be a critical tool for thriving and surviving in an ever-changing business environment. What sets these opportunities and risks apart is that they are difficult to measure precisely; therefore, the analytical framework applied to them must be more qualitative in nature. This framework should help managers identify the “vital signs” that should be monitored to ensure strategic assumptions remain valid over time. The objective is to manage emerging opportunities and risks in a proactive manner to gain competitive advantage and enhance business performance.
The message is clear: If the intelligence function is not driven by factors relevant to the critical assumptions underlying the strategy (i.e., the vital signs), the organization is at risk that the intelligence gathered does not describe the full picture.

The times have changed. Old assumptions and tenets give way to new realities. Companies can no longer rely solely on market growth to propel sales and profits to higher levels. They either must create new markets or gain market share at the expense of competitors while preventing their rivals from raiding their own market position and customer base. Hence, one very critical goal achieved through a CIF is to facilitate the transfer of market share and profitability from competitors. A company can accomplish this goal by improving its ability to gain insights ethically and lawfully from its key stakeholders – including customers, intermediaries, employees, bankers, suppliers and the investing community. This strategic view should be the primary focus of a CIF.

There are many information sources that a CIF can use to identify early signals. The information available through these sources is largely unstructured and qualitative. Secondary research provides a vast array of information – research reports, company websites, regulatory filings and releases, business publications, and libraries are just a few examples of such resources. However, while this information usually is widely available and easily accessible, it often provides a “retrospective” as opposed to a “predictive” view.

Industry associations and events provide an opportunity to interact with industry-focused professionals who have expertise in their respective functional areas. This is a form of intelligence gathered through networking with people to develop a perspective of marketplace changes. It requires not just gathering information from varied sources, but also assessing, filtering and structuring the information to isolate how it affects the vital signs in the context of the business strategy. A CIF also may utilize social media sources, often to understand consumer behavior and trends.

Intelligence gathering differs from data collection and information gathering, as it requires some form of analysis to decipher the real meaning and insights embedded within the array of information obtained in the process. Knowledge and wisdom are what management is after. Data is the raw material used and information is the result of the aggregation/association of data. The question is, can the CIF analyze and synthesize the multiple sources of information over time and, mixing contextual insights, values, experience and relevant rules, derive value-added knowledge? More important, can the CIF apply judgment to make the knowledge actionable (i.e., provide decision-makers with options as to what to do as a result of the newly obtained knowledge and why)? Therefore, intelligence results from processing and adding value to information.

From these intelligence-gathering efforts, organizations must identify and capture opportunities to maximize and take advantage of being an early mover in today’s hyper-competitive business environment. If this isn’t the focus, intelligence often ends up mired in the “noise” of data points and information around the internal and external environment. The problem is there is a lot of information. Knowledge is intended to deal with that problem by culling down information to what really matters. That is why the emphasis on using the vital signs to create focus in intelligence gathering is so important.

An early mover system begins with gathering relevant information about the various elements of the competitive landscape and then processing the information through intelligent and logic-based assessment filters that qualify, normalize, and analyze the information to provide relevant insights. The first step in the filter is to qualify the information (e.g., is it relevant to the strategy or business model, to the vital signs)? The next step is to establish some commonality across the various target areas, which is often referred to as “normalizing” the information. A typical approach is to minimize redundancy and use a rating scale (such as 1-10) to weight the priority and define significant relationships in the data. Finally, there is analysis to evaluate whether the market events that have transpired or are transpiring warrant further consideration. These steps in the filter help management identify and address the vital signs that must be monitored on an ongoing basis by narrowing data and information down to the essential knowledge decision-makers need.

If the information search and gathering process is efficient and effective, it should lead to both better business plans and management actions that either create or protect enterprise value, or both. These plans and actions, in turn, should lead to superior business performance over the long term. Further, by going through analysis and filtering, data gathered can be refined into information and then into value-added intelligence so that management can understand its options. In effect, this gives management the ability to make forward-looking decisions on the opportunities and risks identified through the early mover system.

Now that we’ve discussed the information sources and the process by which information is filtered to focus on the vital signs, we’re ready to describe the four phases of the competitive intelligence life cycle – monitor, assess, communicate and act. These phases are focused on the vital signs.

1. **MONITOR**

A CIF should ensure that surprise occurrences are avoided to the extent possible and changes are anticipated sufficiently in time for management to take necessary action. This is only possible if any and all indicators of a developing opportunity or pre- eminent risk (i.e., the vital signs) are being continuously monitored.

To be effective, the monitoring of opportunities and the related risks must be a coordinated and collective effort. While the onus of monitoring must fall on the organization as a whole, it cannot be an ad hoc activity – it must be a systematic organization-wide process, with the responsibilities for monitoring specific issues delegated to departments that are closest to the action. For example, it would be reasonable to task the sales department with identifying changes in trends in product offerings of competitors. In this context, sales personnel would be best suited to determine that potential customers are opting for competitors’ products and why, and this should immediately signal the warning that there may be a change developing in customer preferences.

A better approach for management is to identify customers’ needs that either are not served by competitors or are inadequately or insufficiently addressed, and then ensure the organization satisfies these needs consistently with its products and services in accordance with its strategy. This would require that management develop appropriate strategies to gain market share profitably from competitors and counter competitive threats as it does so. All data gathering should be geared to this end – otherwise, the intelligence generated will fall into the category of “nice to know” data and information lacking strategic impact.

Also, examination of competitors should take place at both the business-unit and product-line levels. It is at these points – not at the corporate level – where market share is won or lost. All data gathering, information derived from this data, the work involved in the process of formulating competitive intelligence, and the resulting output or analyses must lead to the development of competitive strategy around capturing market share profitably.
2. ASSESS

Opportunities and risks are created by uncertainty – and uncertainty is often a result of changes in the external environment. Organizations need to adopt a systematic approach to assessing new opportunities or the risk of industry dissonance. They need to identify the external drivers that can impact their business and strategy. These change drivers can exist across the organization’s competitive landscape and include the introduction of new technology, new regulations, change in competitive behavior, and so on. The drivers that impact an organization often depend on the industry in which it operates, as not all factors are applicable across industries. For example, while regulatory compliance may have a significant impact on a financial services institution, its effect on an organization providing business services may be limited by comparison. Identifying a list of factors that can have a significant impact on an organization will provide management with insights to identify potential opportunities and risks.

There are more sophisticated methods of assessing opportunities and risks that move away from simply identifying drivers. For example, consider the use of scenarios. These tools are hypotheses about how the future will turn out. They are unlike statistical forecasting, which tries to predict the future based on past events. Scenarios are useful in dealing with an uncertain future in that they are not limited by the bounds of what has happened in the past. By hypothesizing what the future will look like, even multiple futures, scenarios provide management with a picture of the risks the organization will face in the event of a given outcome or a variety of different outcomes. This is where value is added to information and the “So what?” question is asked. Ultimately, scenario analysis offers management the opportunity to consider the implications of multiple views of the future and develop relevant options for decision-making.

An effective CIF should be able to indicate what is going on in the marketplace and what potentially could happen in the future. The CIF adds significant value when it is able to provide options on what management needs to do to increase the percentage of opportunities it is able to pursue that may be successful in creating enterprise value. The CIF adds further value when it is able to signal to management when critical strategic assumptions are no longer valid. This value contributed is how the CIF facilitates the positioning of the company as an early mover.

3. COMMUNICATE

Insights should translate into actions that give a competitive edge to the organization that has invested in competitive intelligence. While frontline managers might be best suited to monitor the external environment due to their proximity to the marketplace, it must be top management’s responsibility to determine the final course of action for the enterprise as a whole. Thus, the CIF must be structured in a way that frontline perspective is communicated to top management for effective and timely consideration and action – whether it is in the form of management reports or meetings, or a direct reporting line through the CIF. Furthermore, two-way communication must occur between intelligence users and the CIF to allow for intelligence requirements to change and evolve over time, particularly as strategic assumptions change.

It is important to note that management alerts should not be limited to what management wants to know and has requested. They also should address what management needs to know. Thus, the insights provided by an effective intelligence function should highlight information that may have been overlooked but is important, before it becomes common knowledge to everyone in the industry.
To summarize, a powerful integration of competitive intelligence activities, strategic planning and management action in a systematic, seamless, organizationwide effort is required to identify and address risk and opportunity early enough to make a difference in the future of the company.

4. ACT

Many companies think they are conducting real-time competitive intelligence because they monitor the competitive environment continuously via the Web and increasingly through social media channels. While monitoring is critical for real-time competitive intelligence, it is not actionable enough to bring about competitive advantage. Early movers must act before the window of opportunity vanishes. If the CIF is to play a strategic role, it should be able to make recommendations for likely scenarios and, if necessary, strategic adjustments.

Even if information is collected and synthesized logically, very infrequently is it applied in an organized, systematic and formal manner to achieve a competitive advantage. Instead, key stakeholders focus their attention on market issues while attending to internal pressures and customers’ requirements.

While swift action is integral to being an early mover, the strategy being implemented should be anything but unplanned. Strategic moves should evolve through multiple rounds of discussion and deliberation by decision-makers, involving many viewpoints covering all conceivable possibilities. This means that management must think strategically over time to formulate appropriate response plans. The advantage of an effective CIF can only be capitalized upon if the organization already has a planned strategy in place that can immediately be deployed when a new opportunity or risk emerges. In essence, executives should already have decided the path on which they will take their organization when opportunities or risks envisioned by the strategy present themselves – the intelligence only serves as a sign that the time to head down that road is either on the horizon or imminent.

This completes our discussion of an approach to competitive intelligence that can help a firm understand how and where to be one of the first to capitalize on opportunities or react to emerging risks by focusing on the vital signs (see Figure 3). An effective CIF can create a repository of embedded knowledge throughout the organization by introducing practices of knowledge management. Additionally, competitive intelligence not only can help build knowledge about a firm’s unique capabilities, but also prevent erosion of that
insight by implementing effective counterintelligence strategies surrounding key processes within a firm’s operating environment.

As an approach, the CIF must consist of unique disciplinary expertise not easily imitated or replicated by other firms so as to create a competitive advantage for an organization and ultimately act as an influence on the firm’s performance. Accordingly, a clear mandate for every CIF is the need to develop clear and consistent metrics for assessing the function’s performance. The lack of consistent metrics hinders the acceptability of the function’s activities because the value contributed will not be apparent. Therefore, every CIF must position itself as an important contributor to the strategic management process and provide input during the strategy-setting process.

Integration of competitive intelligence capabilities, strategic planning and management activities in a systematic enterprisewide effort to identify and address opportunities and emerging risks in a timely fashion can enable an organization to attain “early mover” status and reap the rewards of being more market aware than industry peers.

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CASE STUDY: COMPETITIVE INTELLIGENCE IN ACTION

A large financial services firm that has been a part of the U.S. business landscape for more than 100 years first became involved with competitive intelligence when marketing managers in one of its key business units realized that the competitive environment was becoming more challenging. They first hired a manager who had been in charge of competitive intelligence at a much smaller firm. His job was to build the capacity to collect competitive intelligence and educate management about its importance and use.

Within about 18 months, this manager began to see results through better relationships with the users of the intelligence he provided. The CIF initially had been providing intelligence to the sales and marketing functions through existing market research channels. But over time, the CIF changed its tactics to deal directly with the sales function to determine their intelligence needs better, as well as to develop a partnership to collaborate on new projects and the collection of raw data. At first, he used internal research assistance, searching secondary literature for data and using online databases to stay aware of breaking news. As internal customers began to see the value of competitive intelligence, the manager recruited several experienced competitive intelligence research firms to provide supporting field research. The concept was that all of these firms would be prequalified to work on competitive intelligence and that the competitive intelligence manager could offer projects to one or more of them.

Successful Initiatives

One key initiative was periodic competitive briefings given by the competitive intelligence unit to sales personnel. During those conferences, the competitive intelligence unit received firsthand data from the sales force and was able to probe these individuals for data the competitive intelligence unit could use to establish databases that provide a self-serve supplement to the regular research projects.

One extremely successful technique employed by the firm was the eventual development of a standard set of competitive research information products that are “pushed out” to actual and potential internal customers on a set schedule. This technique helps the firm keep internal business partners aware of the competitive research function and enables them to understand what other types of competitive information are available. It also provides the competitive intelligence unit with a basic set of deliverables that satisfy most internal needs.

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Because this unit operates largely in support of the organization’s sales and marketing functions, its contributions tend to be in qualitative areas such as:

- Providing early warnings of competitors’ new product introductions and marketing initiatives, as well as changes in the way products come to market
- Identifying key competitors’ emerging strategies that will directly impact the company’s sales and marketing tactics
- Serving as a source for “flash” warnings to senior executives, giving notice of critical changes in the businesses of the firm’s key clients, and providing news of significant legal and regulatory changes impacting the company’s own business
- Providing reality checks for corporate strategic planning initiatives through competitive intelligence’s ability to predict what key competitors will do in response to corporate moves either planned or considered

In other words, the competitive intelligence unit’s support of sales and marketing “buys” time, a commodity that can be virtually invaluable to sales and marketing efforts. Within the organization, the competitive intelligence unit continuously receives feedback on its performance from various internal groups. The feedback has, almost universally, indicated that the competitive intelligence unit is providing a valuable service.

Lessons Learned

As it has matured, the competitive intelligence unit has maintained and refined its approach to collecting raw data. As it operates now, there are several interlocking approaches:

- The unit regularly conducts secondary research and analysis. The sources used can range from press releases to governmental filings and from emails from sales sources to bulletins in industry-specific publications.
- It uses outside contractors on a regular basis to supplement this research. Contractors focus on in-depth interviews from customers, as well as the media, regulators and others. The results of these large research assignments are blended with the competitive intelligence unit’s own work.
- It purchases syndicated research, which may supplement its own work and/or that of outside contractors.
A powerful integration of competitive intelligence activities, strategic planning and management action in a systematic, seamless, organizationwide effort is required to identify and address risk and opportunity early enough to make a difference in the future of the company.

Summary

Competitive intelligence in its truest form is an ethical and essential corporate function that involves collecting and analyzing often public but little-noticed information with an objective of “connecting the dots” to ascertain knowledge that could lead to a differentiating source of competitive advantage. The financial crisis provides an excellent example in that the financial institutions that best weathered the storm refused to rely on third-party quality ratings. Instead they established special-purpose units to closely monitor housing market indicators in all major U.S. markets with significant loan portfolio concentrations, as well as test housing prices by selling selected assets from time to time. These institutions understood the severity of the deterioration in the market and began taking action to exit the market some 12 to 14 months before the music stopped and the advantage of timely market exit opportunities was lost. Their competitive intelligence truly made a difference in terms of longer-term enterprise value performance and their present standing in the industry.

Doing research on your own organization and its positioning in the marketplace is more than a good business practice – it is essential to surviving and thriving in a rapidly changing world. Competitive intelligence encompasses the overall competitive landscape of the organization, covering not only competitors and customers, but also the organization’s business partners, changes in technology that may disrupt demand for existing products and services, macroeconomic factors, and regulatory requirements. The importance of each of these elements can vary, as different industries respond to change drivers differently. Expansive information sources are used to gather information on an organization’s competitive landscape and are then converted into “actionable insights” that strategy-setters and policymakers can act upon effectively.

The CIF brings management closer to an external focus – it helps companies decipher the early signs of trouble, and identify opportunities, before they become obvious to everyone else. The key is to develop and use the function in the right way, positioning it in the company in order for it to benefit strategic and operational decision-making and support performance, as well as innovation, in the firm. The CIF, by nature, should be offensive, not defensive.

An early mover system is much more than a management discipline. It is a practical, useful and differentiating skill for determining where a company currently stands in the business environment and how it can improve its position. More important, it is a management imperative that may make the difference in surviving a major market shift in the future.
ABOUT PROTIVITI

Protiviti (www.protiviti.com) is a global consulting firm that helps companies solve problems in finance, technology, operations, governance, risk and internal audit. Through our network of more than 70 offices in over 20 countries, we have served more than 35 percent of FORTUNE® 1000 and Global 500 companies. We also work with smaller, growing companies, including those looking to go public, as well as with government agencies.

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PROTIVITI’S SERVICES

PRIM² is a framework for converging and integrating strategy-setting, performance management and risk management with the objective of positioning the company as an early mover. Protiviti’s services help your organization realize this convergence by delivering deep business insight based on a holistic view of the enterprise. Our Performance Management services address the business challenges facing executive, finance and operational decision-makers throughout the organization. Using best-of-breed, state-of-the-art software, our clients have fast and easy access to trusted financial, operational and risk information, enabling a deep understanding of how value is created and protected, and delivering strategic insight so decision-makers can better anticipate future business outcomes and receive better information for decision-making.

We also recognize that risk is an important and vital aspect of managing an enterprise and delivering performance against strategic objectives. Our comprehensive risk management services complement our Performance Management solutions by helping companies improve their enterprisewide capabilities to identify, source, measure, manage and monitor the critical risks inherent in their corporate strategy and business plans, while incorporating the foundational risk management and controls provided by powerful governance, risk and compliance (GRC) software tools. The objective is to enhance strategy-setting and performance management with the intent of positioning the enterprise to become an early mover.

For more information about the issues discussed in this white paper and Protiviti’s services, please contact:

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