If your once-promising CI program has lost its way, blame the folks at the top.

Competitive Intelligence

By Ben Gilad

In a 1991 *Across the Board* article, an expert identified six American companies with first-rate competitive-intelligence programs—Corning, Digital Equipment, Eastman Kodak, McDonnell Douglas, Motorola, and Southwestern Bell. Since then, Kodak, McDonnell Douglas, and DEC have downsized, rightsized, or otherwise killsized their intelligence programs. Corning's program lost some of its influence and with it, resources. Southwestern Bell still maintains an excellent operational program in one of its divisions, but the HQ unit has been effectively dismantled.

If the programs were so good, why were they cut? And what exactly is a first-rate intelligence program? Indeed, how do you determine whether your CI program is first-rate or a waste of money? The answer is far from simple. Surely, any business initiative should contribute to the bottom line, and recent studies by two researchers confirm a statistical link between competitive or business intelligence activities and corporate performance. The link may be even stronger than the studies suggest.

In 1985, the CI people at Motorola, which boasts the one surviving first-rate program, launched a study of Japanese business strategies in Europe. At that time, Motorola-Europe executives saw no signs of a thrust by Japan into Europe. That did not fit the character of their rivals. The study discovered that the Japanese planned to double their capital investment by 1987, going after the European semiconductor market. As a result, Motorola changed strategy, sought joint ventures with European partners, and was able to hold off the Japanese. Market share and profit might not have risen, but at least they didn't plummet as had been the case with so many other American firms facing the strategists from Japan.

As that example reveals, one of the most significant roles of a CI program is as an early-warning system to ward off disasters. Unless one knows the details of the intelligence delivered and the thought processes of the decision makers receiving it, averted disasters are hard to quantify. While a simple correlation between CI and profit is difficult to calculate, it is easy to conceptualize.

A first-rate CI process must affect the mindset of the people whose actions most significantly affect the

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bottom line. Therefore, it must affect the actions, decisions, and thinking of the CEO (or another top decision maker, be it in a strategic business unit, division, or parent company). Unless the CEO avoids making decisions—always searching for consensus or procrastinating until any action is futile—the intelligence function should be judged on its access to and influence on the top executive. This is also the decisive factor separating Motorola from the other companies mentioned above. At Motorola, all CEOs since Bob Galvin have had a love affair with their CI function.

Motorola hasn't been the only company where the CEO understood the tremendous benefits of an effective business-intelligence capability: better knowledge of the market, customers, and competitors; quicker response time; and superior strategy based on early identification of both potential threats and potential opportunities for alliances, acquisitions, and new products. The top guns at Toyota, Toshiba, NEC, Matsushita Electric, and Shiseido don't take a strategic step without a thorough examination of the available intelligence data. Intuition plays a smaller part than in the typical American company. Their employees, following their lead, regard the collection of competitive information as fundamental. When the CEO, division president, and SBU head use intelligence intensively, their companies and their people quickly develop a capability to match this use. When they don't, or when they pay lip service to the need to be "closer to the market," the intelligence function quickly deteriorates into another paper-shuffling function.

What Has Gone Wrong?

Stuck in the Middle

Some people may recognize the link suggested here as the reverse of what happened to the quality revolution in corporate America. Postmortem analyses in recent years have suggested that the quality revolution often failed to make its way down to the organization, where it really mattered. With competitive or business intelligence, the diagnosis is the reverse: Middle management has been frustrated by the insularity of their companies' inward-looking culture. And while those at the middle level, especially the younger managers, intuitively grasp the benefit of an outward-looking function, top management in American corporations generally undervalues competitive information. This factor helps explain why Kodak, McDonnell Douglas, Merck, US West, and many other veterans of the intelligence revolution that swept America in the 1980s have recently scaled down their CI programs.

It still doesn't explain, though, the following statistics: At the same time that the CI programs at Kodak, Digital, and McDonnell Douglas were being emasculated, the number of U.S. firms with new CI programs just about doubled every three years since 1985. To understand this phenomenon you must understand the nature of CI waves in corporate America.

Back in the late 1970s and through the 1980s, American corporations suffered a series of humiliating defeats in the marketplace at the hands of more-agile, more-efficient, and better-prepared Japanese competitors.

Corporate America responded. A Conference Board survey of 315 American companies in 1988 revealed that while only 3 percent had a "fully developed" intelligence function, 34 percent already had "fairly well-developed" functions, and an additional 48 percent had a "loosely developed" function. The vast majority of American companies anticipated an increase in the budget for CI activities over the next few years. This was corporate America's secret weapon in its attempt to regain market position—against the Japanese and against increased domestic competition—and in 1988 this "CI revolution" was in full swing.

Since then, however, many corporations have gone through cost cutting, downsizing, and restructuring that, surprisingly enough, did not spare the new intelligence programs. The reason? Surveys and focus groups led by the Society for Competitive Intelligence Professionals revealed that the overwhelming majority of firms failed to use the competitive-intelligence function properly. The results were frustrated analysts, low organizational recognition or acceptance of the function, and virtually no impact on firms' top executives. Then, too, newcomers into the CI game were numerous, innocent, and rather ignorant. They copied the format of CI programs from others in their industry, learning very little from past mistakes. Only a very small percentage of newcomers will deem their programs very effective two years hence.

Why did it work for Bob Galvin but not for us? they will ask.

The answer is quite simple. Galvin had experience with intelligence during his short tenure on President Nixon's Foreign Intelligence Advisory Board. His successors at Motorola inherited his affinity to foreknowledge. As my experience bears out, once an executive is exposed to the full capability of a properly organized competitive-intelligence program, he cannot and will not do without it. I've found American CEOs who stum-

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bled in their CI activities usually structured them poorly or delegated them to the wrong people.

More Than Just Watching Competitors

Most CEOs and their top teams are in the dark about the role of intelligence, though they all want to be more knowledgeable about their competitors. All these executives share a clear dissatisfaction with their companies' state of competitive "preparedness." Little wonder: What the CEOs or their top executives perceive as CI activities is a far cry from a true CI capability. As one expert stated in the 1991 *ATB* article, many advocate the development of CI capability in their firms without knowing what CI people actually do! When the role and value of CI are explained to them, with war stories and actual examples from leading companies, you can actually see the logic sinking in. In my experience, every CEO exposed to the correct concept of CI has seen the enormous benefit to himself and his organization.

The problem, of course, is that most do not get this exposure. As French-American management expert Jean-Marie Bonthous states, the influence of national culture on business's perception of intelligence is what makes it so easy to sell the concept to a Japanese, French, Israeli, or Swedish executive, and what makes it such a hard sell in this country. In the United States, intelligence is associated with the military, covert activity, and secrecy. As Bonthous points out, in Japan, for example, the *ningen kankei*, the social networks of intelligence transfer, are an integral part of society; in Israel, the vast majority of top executives served in the military.

Lacking a social-national framework for the intelligence function, the majority of American executives followed the next route. In one instance, a large division (more than $2 billion in annual sales) of a *Fortune* 500 consumer-products company, under severe competitive pressure in the mid-1980s, created a competitor-monitoring program; this was their version of competitive intelligence. The division president allocated the task to the market-research department. A senior marketing analyst was told to "monitor competitors' activities." Lacking any experience or specialized training, he interpreted his role as compiling profiles of competitors. Being a marketing person, he requested the help of the sales division in collecting marketing information on the major competitors, which naturally were large divisions of other *Fortune* 500 companies.

The response was less than enthusiastic. Most information channeled to him consisted of competitors' coupons, announcements of trade deals, and price sheets. The analyst then hired the services of a clipping service and an online database search firm to provide him with more information on the competition. The published data was an average of six months old and already well known to the division's brand managers. The competitor profiles were updated quarterly and were sent to all brand groups, where, according to the division president, the real competitive battle raged.

However, few brand managers used the information in their market plans, and even fewer provided feedback to the analysts. The company market share kept sliding, as smaller competitors and private labels ate its lunch. At the yearly performance review, when resource-allocation fights erupted, the president questioned the real benefits of the monitoring program. A major (and expensive) consulting firm, one that had never been active or expert in the new CI field, recommended expanding the role of consumer-focus groups as part of a massive restructuring, but it found no need to restructure intelligence flow into the president's office. This is typical of my encounters with leading management-consulting firms. Intelligence projects tend to be small relative to the much more lucrative restructuring projects, and the prestigious consulting firms haven't developed the expertise to deal with this specialized area.

A War on Many Fronts

Several things were wrong with this company's approach, some of them obvious, some of them more subtle. Yes, competitor-watching is an important part of competitive intelligence, but it is not passive competitor watching. Intelligence functions when a company develops a core competency in understanding competition. This competency drives challenges to the status quo, brings an outside perspective to insular cultures, devises unconventional strategies to stun competitors, and points out opportunities everyone else ignores. Competency in understanding competition implies a maverick ability to throw competition off balance. It isn't achieved through clipping coupons or searching data bases.

More importantly, instead of shoving the function at arm's length to marketing, the president should have pulled it in as close to him as possible. Competitive intelligence is not reactive competitor-tracking, and certainly not a mindless collection of competitors' marketing data. It is the much more ambitious undertaking of creating a fully devoted guardian of the enterprise's overall competitiveness.

While the term competitiveness sounds like a B-school term, most CEOs can relate to it instinctively. Competitiveness is dynamic and requires a continuous and objective assessment of the enterprise's core competencies, mythical vs. real strengths, unspoken weaknesses, and its relative position vis-à-vis both current competitors and new threats. This should occur on many fronts: products; technology; customers' revealed, hidden, and emerging preferences; supply chains; distribution strategies; manufacturing processes; acquisition opportunities; and of course competitive advantage, knowledge, and the use of information.

Competitiveness is fragile: You slack a little, you lose it. The timing of decline may vary between industries (financial and pharmaceuticals executives believe their industries are slower to change), but no one is immune to a decline in competitiveness. CEOs could benefit from insightful, thorough, and honest competitive analysis, not just competitor analyses by junior analysts somewhere in marketing who compile

the typical competitor profiles and call it CI.

In another case, a major East Coast financial institution assigned the task of competitive intelligence to its very sophisticated planning department. The bank had been slow to respond to changes in its market and a smaller rival's move to segment the customer base and steal some of the bank's traditional clientele. The bank was also slow to adopt some of the IT management tools and online banking innovations. The competitive-intelligence job, renamed commercial research, relied heavily on secondary research. The VP of planning supported the new activity, though in actuality, its major impact was an added section to the 400-page five-year strategic plan. There was no attempt to recruit primary (human) sources, and very few in the organization had any idea that a CI activity was taking place at all.

The intelligence analysts didn't have any real power and carried limited credibility. There was no independent "reality check" on strategies, generation of alternatives, or independent and often unpleasant assessment of competitiveness.

The bank had expected to return to profitability as the economy turned. The problem was, no one on the senior team expected competitive intelligence to become a source of competitive advantage enabling a quicker response time, better reading of market pulses, or first-move advantage. So it didn't. While Mitsubishi Bank uses an intelligence network and a think tank rivaled only by the U.S. government, the CI function at this bank and many other American financial institutions was a pale imitation of the real thing.

When the CI function exerts no independent and significant influence on the strategic-planning process, its output is often relegated to "nice to know." Only personal involvement with top company strategists can signal to the organization and exert a powerful effect on human intelligence collected from employees. Poorly structured intelligence programs create difficulty in gaining cooperation from the various departments.

Shrugging Off Japan

Erecting a system of bells and whistles to warn of loss of competitiveness is in a CEO's best interest. Yet instead of making such a system a high priority and giving it a very high profile, divisional CEOs turn to their closest aides—the VPs of planning, marketing, finance, and operation—and corporate CEOs turn to their division heads for advice and input on competitive conditions. They in turn look to their subordinates to report on competitive standing.

As the fate of the old guard at U.S. car manufacturers reveals, this management style doesn't cut it under competitive pressure. While top officers are presumably well-connected and possess good information for their CEOs, in reality, using them as sources doesn't meet the bare-minimum requirements for possessing competitive-intelligence capability: 1) Integration of all functional data into one place where an objective, analytical, and thorough intelligence estimate can be compiled and maintained through time; and 2) a cross-disciplinary network of human sources inside and outside the company that is motivated to communicate competitive information.

These conditions, as a rule, have never been the norm of corporate structures and cultures. Most executives do not have the time to maintain such a network. Their sources are haphazard, their analysis spotty, their memory short-term. In the more autocratic cultures, some CEOs don't have the motivation to keep information unfiltered. Lee Iacocca, Roger Smith, and their colleagues at the old Big Three were forced to retire or were eased out in less-than-honorable fashion because their staffs, their division heads, and ultimately themselves still considered the Japanese a minor nuisance as late as 1985. While it is possible that with self-absorbed leaders such as Iacocca and Smith no early warning would have helped, there is also evidence that a lot of information simply didn't make it to the top. One senior automobile executive lamented that Japanese progress with transmissions and styling, as evidenced by their successful transition from compact cars to the luxury-car market, took Detroit by surprise.

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When the CEO Isn't Well Connected

Forming an effective human network for information is a very complicated task. A 1993 research study by professors Bernard Jaworski of the University of Arizona and Liang Chee Wee of Luther College reveals that out of 103 pharmaceutical organizations surveyed, only about 35 percent had a top manager champion CI activities. And in only 20 percent of the cases did respondents agree that their top management encourages employees to provide intelligence, allocates funds to train employees, or provides positive feedback on the role of intelligence. It is not that pharmaceutical companies don't collect CI. They do. But the effort is very often informal, fragmented or segmented by departments, and rather limited in its strategic impact. Typically, it consists of a market-planning department collecting CI for the day-to-day management of branded drugs.

But this is management for the present, based on the success of the past. Management for the future requires that top management, not product managers, receive brilliant analysis of early signs of change in competitive conditions and that they *pay attention to it*. This scenario is not wishful thinking. In a small subsidiary of a health-care manufacturer, the top executive committee devotes considerable time to discussing intelligence reports received directly from the field force. The field personnel know that the president and his VPs are going to look at and respond to the data, so they send it in systematically and continually. The subsidiary is therefore capable of quick response, and because the attention paid to the CI is both regular and

conducted at a high level, proactive strategies are the rule rather than the exception.

However, at the parent company of the same subsidiary, direct transmission of CI to the top is impractical. There is too much of it, too many layers of management in the way, and not enough time for top managers to do their own analyses. Unfortunately, top management lacks the sense of urgency and proactive mindset of the small subsidiary. In a typical fashion for a pharmaceutical giant in the United States, limited competition and the long cycle of drug development lower the perceived need for intelligence at the top, and in a manner of speaking, some of the top executives are asleep at the helm.

These managers fail to learn from their industry's own history. Early signs of the structural earthquake that rocked the pharmaceutical industry—signals about buyer power, generic substitutes, formularies, distribution channels, and the government's role—escaped the proper attention of many top executives. Disjointed reporting by busy brand managers, or tracking of familiar large competitors by development specialists, could not have possibly filled the need for a true intelligence capability.

Early signs of structural changes need considerable attention at the highest levels. Roy Vagelos of Merck chose to ignore the rising value of generics and therefore paid $6 billion to acquire Medco very late in the game. Perhaps intelligence analysis from a function devoted solely to monitoring competitive change would not have persuaded him to act earlier, but the absence of a high-level intelligence advocate guarantees that a company will be reactive, slow, and insular. *The essence of smart, competitive management is an action that precedes its obvious time.* An aggressive CEO must ensure that all early signs from all sources converge on one point.

Who's Minding the Store?

Sealing the fate of many units is the next deadly sin: the choice of the CI function director. Since CEOs and SBU presidents in this country haven't fully embraced the activity, the choice of the intelligence director became a matter of shuffling people according to vacant positions elsewhere, not selecting the most brilliant analyst, the most unconventional, independent observer, who can be found. The unlucky manager selected to head this very sensitive and essential function receives no specialized training. Women have been favored for the role because it offers a staff position without real power. A nice glass ceiling for many. No one pays much attention to what qualifications an intelligence analyst needs so the wrong people are put in the wrong place to carry out the wrong mission, and nobody minds the store.

As of 1995, my estimate based on several surveys and personal experience is that about 9 percent (and growing) of Western firms already possess or are building business-intelligence capabilities. Among those are Motorola, Kellogg, Hoffmann La Roche (the Basle Pharmaceutical unit, *not* the American subsidiary), Pacific Enterprise, PPG Industries, Best Foods, Philips Petroleum, and Amerigas, to name a few. While these companies differ in the way they adapt the new intelligence function to their culture and processes, they all have one thing in common: There is an ongoing love affair between the division president or the parent company's CEO and the intelligence function.

In these companies CI is the backbone of continuous strategic dialogue between the CEO and his top executives. Given the high profile of the intelligence function in these organizations, intelligence managers can tap a human network webbed throughout the organization and the industry. The function coordinates major studies of competitors, as well as benchmarking of internal capabilities. In some cases, the day-to-day flow of intelligence from internal and external sources is subject to analysis by multidisciplinary teams. In the more advanced organizations, intelligence reviews have been woven into the normal processes of project and budget planning.

Before embarking on this new activity, these companies spent money and time carefully picking the president's intelligence adviser, studying weak areas in the internal decision-making process, flushing out competitive blind spots, and carefully delineating the ethical guidelines for their employees. Without exception, the 9 percent spend considerable resources on training, for both intelligence analysts and network members. There are no short cuts, no mandates without real management support, no lip service to the importance of "getting closer to the market."

Superior Anticipation

Once it is clear that top management means business, the entire organization falls in step. Managers are embarrassed to be found ignorant of competitive developments. One survey revealed that in companies where the CEO makes frequent use of the intelligence analysis, budgets for CI activities over the next two years are expected to grow by an average of 33 percent, following an increase of 50 percent in the previous two years. This is not "nice to know" paper shuffling down in market research. This is what one of the companies I worked with called, very appropriately, developing "superior anticipation."

Furthermore, as this model catches on, competitive CEOs will place market research and several other boundary-spanning functions such as corporate libraries, economics departments, and development specialists under the CI function, consolidating all sources of external-information gathering and analysis under the special intelligence assistant to the CEO, in a reorganized office of the CEO. Quarterly intelligence assessments of the company's competitiveness based on input from a well-placed and well-motivated human network inside and outside the firm will become the norm for intelligence functions and a base for executive action. At that point, American CEOs may close the gap with their Japanese counterparts. ■