INTELLIGENCE ANALYSIS

Stating the “so what?”

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Principal
Outward Insights LLC

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Annual Conference and Exhibition
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WHAT IS COMPETITIVE INTELLIGENCE?

**Competitive Intelligence:**

Knowledge and foreknowledge of the competitive environment — the prelude to decision and action.

**Competitive Intelligence Process:**

The organizational means by which information is systematically collected, analyzed, processed and disseminated as intelligence to managers who can act on it.
"Hey! They're lighting their arrows! . . . Can they do that?"
CI PROVIDES NECESSARY COVERAGE of the EXTERNAL ENVIRONMENT

- Competitor Capabilities, Plans, & Intentions
- Corporate Security Threats
- Industry Structure & Trends
- Technology Developments & Sources
- Political, Economic, & Social Forces
- Markets & Customers
A BRIEF WORD ON INTELLIGENCE SOURCES

Secondary Sources

- Press reports
- Analyst reports
- Industry assessments
- Syndicated research
- Association reports
- Conference papers or presentations
- Job postings

Human Intelligence

- Interviews with industry experts
- Consultants
- New hires
- Conferences
- Retirees
- Sales force
- Internal networks
- Chat rooms, blogs
WHAT COMPETITIVE INTELLIGENCE is NOT

• Traditional competitive studies
• News clipping service
• Databases / data warehouses
• Market research
• Benchmarking
HOW to CREATE COMPETITIVE INTELLIGENCE: THE CI CYCLE

1. Planning & Direction
2. Secondary Research
3. Human Intelligence Collection
4. Analysis
5. Report & Inform
6. Decision Makers
7. Other Users
HOW DO MOST PEOPLE VIEW THE ANALYSIS PROCESS?

IN

Data, Information

What goes on in here?

OUT

The Analysis Black Box

Intelligence Judgments

Implications Heavy
New Thinking

www.outwardinsights.com
LET’S GET THE ANALYTIC JUICES FLOWING

Market Share: Elimination of Differences

<table>
<thead>
<tr>
<th>Competitor</th>
<th>Segment</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Us</strong></td>
<td></td>
<td>$10</td>
<td>$15</td>
<td>$20</td>
<td>$25</td>
<td>$70</td>
</tr>
<tr>
<td><strong>Company A</strong></td>
<td></td>
<td></td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Company B</strong></td>
<td></td>
<td>$15</td>
<td></td>
<td></td>
<td></td>
<td>33%</td>
</tr>
<tr>
<td><strong>Company C</strong></td>
<td></td>
<td>$18</td>
<td>$5</td>
<td></td>
<td></td>
<td>$30</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>$50</td>
<td></td>
<td></td>
<td></td>
<td>$300</td>
</tr>
</tbody>
</table>
WHAT IS INTELLIGENCE ANALYSIS?

• **Assessments of competitor behavior**
  • Long-range strategy
  • Tactical sales activity
  • New market entry
  • New product introductions
  • Research and development

• **Assessments of industry trends**
  • Technological upheavals
  • Economics
  • Structural changes
  • New players
  • Substitutes
  • Supplier and buyer behavior

• **Input into competitive strategy**
  • Sales differentiation
  • Strategic planning
  • Operational effectiveness
  • Cost cutting / revenue enhancement
“On the ice, everyone goes to where the puck is. Me? I go to where the puck is going to be.”

-- Wayne Gretzky
ANALYSIS HELPS COMPANIES EMBRACE THE EXTERNAL ENVIRONMENT

“The motion has been made and seconded that we stick our heads in the sand.”
<table>
<thead>
<tr>
<th>Data</th>
<th>Unconnected Bits</th>
<th>Employment at the site dropped from 1100 to 950</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information</td>
<td>Knowledge build by looking at several data points</td>
<td>They implemented new labor-saving technology</td>
</tr>
<tr>
<td>Intelligence</td>
<td>The implications of the organized information</td>
<td>This will give them the ability to ...</td>
</tr>
</tbody>
</table>
FROM WHAT TO SO WHAT?

Achieve “so what” by addressing questions like:

• Why are industry participants behaving the way they are? What forces or drivers are at work?
• What are industry participants trying to achieve? What will constitute success or failure in their eyes?
• What will industry participants do to achieve their objectives?
• What stake do we have in their success or failure? How can we help or hinder them?
<table>
<thead>
<tr>
<th>Question</th>
<th>What? Or So What?</th>
<th>Why?</th>
</tr>
</thead>
<tbody>
<tr>
<td>What was Competitor’s revenue for the past eight quarters?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>What is Competitor’s employment outlook for the next two years?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>What is Competitor’s ad strategy?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does Competitor have any new products in development?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>How many customer service lines does it plan to install?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>What is Competitor’s market segmentation plan?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>What is Competitor’s mission statement?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Which of our current competitors might Competitor partner with in the next two years?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>What would be the impact of that partnership?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>How has Competitor’s market share changed over the past five years?</td>
<td></td>
<td></td>
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</tbody>
</table>
ANALYSIS MUST FOCUS ON DELIVERING UNIQUE JUDGMENTS

Define Issue and/or Decision

Analytical Framework

Collection

What Are the Facts Suggest?

Interpretation

What Does It All Mean for the Issue and/or Decision

Implications

What

This is the objective of analysis

So What
ANALYSIS IS OFTEN GIVEN SHORT SHRIFT

• “We have carloads of data, but are short on analysis.”
• “Our intelligence is either gut-feel or a bunch of statistics.”
• “We need to be more anticipatory.”
• “We’re too internally focused.”
• “Nobody’s doing the ‘what-if’ analysis.”
• “We don’t spend enough time thinking the unthinkable.”
• “More than half the time we made guesses about what the competition would do, we were wrong.”
• “I fear that a host of entirely unexpected competitors are over the horizon as industries converge.”
ANALYSIS IS ALL ABOUT ASKING THE RIGHT QUESTIONS

Intelligence collection is about asking questions to get information
- Fact-generating questions that are at increasingly detailed levels of specificity

Intelligence analysis is about asking questions about information
- Thought-provoking questions that are at increasing levels of generality
HYPOTHESIS-BASED ANALYSIS

**Competitive Hypothesis**: A presumption about a competitor’s strategies, plans or behaviors based more on casual observation, beliefs, and stereotypes and less on hard evidence

- Hypotheses become judgments once the analyst has marshaled enough evidence to support a hypothesis over others

Hypotheses help guide intelligence collection and help structure intelligence analysis

- “If you don’t know where you’re going, any road will get you there.”
# Inductive vs. Deductive Reasoning

<table>
<thead>
<tr>
<th>Inductive</th>
<th>Deductive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research and analysis begins with preliminary judgments</td>
<td>Information collection begins in response to questions posed without preliminary judgments</td>
</tr>
<tr>
<td>Collection is focused on proving or disproving hypotheses</td>
<td>Judgments are deduced from information already collected</td>
</tr>
<tr>
<td>Final judgments are formed from refining hypotheses and considering new lines of reasoning after information is collected</td>
<td>Final judgments are refined based on initial questions and a re-evaluation of the information</td>
</tr>
</tbody>
</table>
WHAT ARE ANALYTIC METHODOLOGIES?

Methodologies are models for organizing, evaluating, and interpreting information.

They:

• Focus data gathering and research
• Make it easier to spot trends and themes
• Structure your thinking

They do not:

• Automatically generate findings and conclusions
• Replace judgment and common sense
• Create intelligence
• Think for you

This is your brain on methodologies

This is your brain
<table>
<thead>
<tr>
<th>Methodologies</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organization and Alliance Analysis</td>
<td>Requires years of data to determine trends</td>
</tr>
<tr>
<td>Leadership Profiles</td>
<td>Useful in tracking pending changes to company strategy</td>
</tr>
<tr>
<td>Strengths and Weaknesses</td>
<td>Can help re-examine mindset or conventional wisdom</td>
</tr>
<tr>
<td></td>
<td>Can surface hidden assumptions about competitors</td>
</tr>
<tr>
<td>Financial Analysis</td>
<td>Can project a false certainty</td>
</tr>
<tr>
<td></td>
<td>Best used in conjunction with qualitative techniques</td>
</tr>
<tr>
<td>Core Capabilities Analysis</td>
<td>Can help re-examine mindset or conventional wisdom</td>
</tr>
<tr>
<td></td>
<td>Can surface hidden assumptions about competitors</td>
</tr>
<tr>
<td>Event and Timeline Analysis</td>
<td>Best when dealing with large number of events</td>
</tr>
<tr>
<td></td>
<td>When events are dispersed or obscured</td>
</tr>
<tr>
<td></td>
<td>Less appropriate with nuanced topics</td>
</tr>
<tr>
<td>Influence Analysis</td>
<td>Can help re-examine mindset or conventional wisdom</td>
</tr>
<tr>
<td></td>
<td>Can surface hidden assumptions about competitors</td>
</tr>
<tr>
<td></td>
<td>Avoid using when few players/relationships at work</td>
</tr>
</tbody>
</table>
## PROBABILISTIC METHODOLOGIES

<table>
<thead>
<tr>
<th>Method</th>
<th>Best Used</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitor Response Modeling</td>
<td>In fast-moving industries and markets When there are numerous variables at work</td>
<td>Forecast competitor actions Test your strategy against a range of possible futures</td>
</tr>
<tr>
<td>Scenario Analysis</td>
<td>When you lack confidence in assumptions or evidence When your company is facing an entirely new situation</td>
<td>Plan for a range of possible outcomes Establish signposts of future activity Identify low-probability, high-impact outcomes</td>
</tr>
<tr>
<td>Opportunity Analysis</td>
<td>When there are obstacles to current strategy When management can take risks to seize an opportunity</td>
<td>Identify ways your company could affect a desired outcome Identify unforeseen dangers and opportunities</td>
</tr>
<tr>
<td>Competing Hypotheses</td>
<td>When company mindset has staled When hidden agendas may distort group analysis</td>
<td>Perform consistency checks on evidence Identify signposts for future hypotheses</td>
</tr>
<tr>
<td>Linchpin Analysis</td>
<td>When the company mindset has staled When facing issues of high uncertainty</td>
<td>Achieve consensus on competitive issues and implications Refresh conventional wisdom</td>
</tr>
</tbody>
</table>
MAJOR COMPONENTS OF COMPETITOR ANALYSIS: PORTER’S FOUR CORNERS

- Is the competitor satisfied with its current position?
- What likely moves or strategy shifts will the competitor make?
- Where is the competitor vulnerable?
- What will provoke the greatest and most effective retaliation by the competitor?

Adapted from: Competitive Strategy, Michael Porter, 1980
PORTER’S THREE GENERIC STRATEGIES

Differentiate

Be Low Cost

Focus (e.g., geographically or on a market segment)
ANALYSIS CASE STUDY: SPECIALTY CHEMICALS COMPANY
BACKGROUND

• **Company**: Global manufacturer of high-value, petroleum-based specialty chemicals
  • Used in automotive, consumer, industrial products

• **Issue**: Prospects for new class of high-end, polyolefin chemical products in light of maturation of existing products
  • Trade-off between performance and cost

• **Approach**: Hypothesis-based competitive assessments and scenario analysis
**Key Question:** What will the competitive environment look like for new, high-value polyolefin-based products in 2007-2009?

**Key Factors:**

<table>
<thead>
<tr>
<th>Market</th>
<th>Competitors</th>
</tr>
</thead>
</table>
| • Drivers of growth  
  • Global or regional?  
  • Replacement or new demand? |
| • Existing competitors  
  • Market share  
  • Financial strength  
  • Technology capabilities |
| • New entrants  
  • National companies  
  • Partnerships, JVs |
| • Intermediaries  
  • Backward integration |
## HYPOTHESES ADDRESSED MARKET BEHAVIOR, COMPETITORS, AND CUSTOMERS

<table>
<thead>
<tr>
<th>Market Growth</th>
<th>Competitors</th>
<th>Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• There are long term growth opportunities for high-value products</td>
<td>• Technological, capital, and IP advantages limit new competitors</td>
<td>• Customers will increase alignment with their suppliers to improve supply chain economics</td>
</tr>
<tr>
<td>• Domestic US market will provide long-term growth opportunities for specialty products</td>
<td>• Only a few companies like X and Y have the R&amp;D capabilities to compete in the specialty market</td>
<td>• Customers will pay higher prices to suppliers that can provide innovative product applications and uses</td>
</tr>
<tr>
<td>• Environmental restrictions will not be a growth inhibitor</td>
<td>• Competitors are using design centers to build customer relationships</td>
<td></td>
</tr>
<tr>
<td>• Growth in the specialty market depends on access to IP</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
INTELLIGENCE GATHERING TESTED HYPOTHESES AGAINST SEVERAL SOURCES

• Company employees
  • Sales
  • R&D
  • Purchasing
• Associations
• Academics
• Journalists
• Consultants

But **not** competitors (antitrust concerns)
FINAL REPORT WOVE A STORY BASED ON HYPOTHESES AND SCENARIOS

• Intelligence collection validated about 2/3 of our hypotheses
• Final analysis forecasted greatest threat from nationalized Asian chemical companies
• Competitor hypotheses further tested in scenarios
The intelligence to anticipate. The strategy to lead.™

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