Competitive Intelligence - Early Warning

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Competitive intelligence in its truest form is an ethical and essential function that involves collecting and analyzing often public but little-noticed information with an objective of “connecting the dots” to uncover insights that may provide a source of competitive advantage. Effectively aligned with strategy-setting, it can help companies decipher the early signs of opportunity or trouble before they become obvious to everyone else.

Key Considerations

Competitive intelligence comprises the actions of defining, gathering, analyzing and distributing intelligence about innovation, customers, competitors, government actions, and any other aspects of the marketplace to enable more effective decision-making. As a process, it 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. While competitive intelligence looks at the many disparate elements in the business environment that affect a company’s ability to compete, its methods should ensure it is focused on the elements that matter most.

Needless to say, executive management should dedicate sufficient attention to external market events and developments. Stable, predictable markets are relics of the past. Factors such as globalization and faster technological innovations make the likelihood of swift market changes that could impact management’s strategy and business model 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. Therefore, early warning capability is of paramount importance.

To provide early warning in a dynamic, complex and uncertain business landscape, a competitive intelligence process must address two fundamental questions:

- Does the process maximize market opportunities by providing the information necessary for capitalizing on emerging growth opportunities such as new markets for existing offerings or fresh revenue streams?
- Does the process minimize the risk of industry dissonance[1] by gaining an understanding of the vital warning signs of one or more critical strategic assumptions becoming invalid as the firm executes its strategy in a changing business environment?

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 present opportunities for company executives to exploit before others do. With regard to industry dissonance risk, management should focus on the vital signs that provide early warning of the risk of changing assumptions so the organization's options can be evaluated before the risk becomes common knowledge. The objective is to manage emerging opportunities and risks in a proactive manner to gain competitive advantage and enhance business performance.

Rather than being limited to pricing or other tactical issues, competitive intelligence should be comprehensive in scope, integrating the intelligence gained from the analysis of multiple sources of data and information with the objective of identifying insights and trends that can make a difference in exploiting fresh opportunities and identifying emerging risks. In effect, a competitive intelligence function is the CEO's "eyes and ears" in a rapidly changing world.

One of the key assumptions underlying the strategy of leveraging cheap money in lending to the subprime housing sector, which was a factor leading to the recent financial crisis, was increasing or stable housing prices. Everyone knows the rest of the story. Simply stated, the validity of business assumptions should be evaluated as the business environment changes. Because market exploitation opportunities and industry dissonance risks are flip sides of the same coin, an early mover system can be critical to thriving and even surviving in an everchanging environment. Although industry dissonance risk may be difficult to measure, the risk assessment framework should identify the "vital signs" that the competitive intelligence process should monitor over time.

Failure to make the fundamental connectivity with the enterprise's underlying strategic assumptions leaves competitive intelligence as a tactical, ad hoc and strategically irrelevant process. If the intelligence function is not driven by factors relevant to the critical assumptions underlying the strategy, the organization is at risk that the intelligence gathered does not convey the full picture. Therefore, it should incorporate monitoring of the vital signs identified from contrarian analysis applied to the critical assumptions underlying the strategy, with an end goal of reducing the risk of industry dissonance to an acceptable level.[2] This is an important distinction because it is our view that many companies do not make this critical connection of positioning competitive intelligence as an enterprise value protection tool.

Questions for directors

Following are some suggested questions that boards of directors may consider, in the context of the nature of the entity's risks inherent in its operations:

- Is there a common understanding between management and the board as to the critical assumptions underlying the enterprise's strategy?
- Is the organization's competitive intelligence focused on the vital signs affecting the validity of the critical assumptions underlying the strategy?