

COMPETITIVE INTELLIGENCE

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ABSTRACT

Companies in today's world are facing globalisation and competition stronger than ever before. Strong competition leads into fast moving innovation, continuous technical development and the pressure to reduce costs. To ensure the success of a company it not enough anymore to operate market or customer orientated. Nowadays it is also important or essential to be aware of the competition and the competitive situation. The large multinational companies have built some time ago special departments for such a task or make use of external consulting organization which are specialized in this topic.

Competitive research or competitive analyses are nowadays referred to as **competitive intelligence**. Industry sections like high tech, pharmaceutical and others with high investments in innovation (research and development) are often well informed about the competition by analysing patent- or similar databases. Many small and midsize businesses especially retail suppliers (food and non-food) or suppliers in agriculture industry have not started yet with competitive intelligence, because of the cost pressure in the actual financial and economy crises. This document has the target to introduce the competitive intelligence topic to the reader and to highlight that it is essential to have enough knowledge about the competition when building company strategies or making important decisions.

KEY WORDS: competition, intelligence, competitive advantage, company, business, strategy, strategic management, strategic planning

INTRODUCTION

Companies of today's world are facing the increase of globalisation stronger than ever before. The technological development especially within the information-, communication- and logistic-industry, as well as the linkage of the international financial markets and the increase of global players generated a world market which comes never to a standstill. This means companies are facing stronger competition than ever before. For them it is important to know and understand what the competition does, what the competition offers and with what strategy competitors operate.

Rainer Michaeli confirms that companies and markets are more influenced by changes of products and competitors than ever before. This happens especially in industry sections which are facing permanent changes (Michaeli, 2006:3). The agriculture sector, the CPG Industry (Consumer Packaged Goods) and the Retail Business including all their suppliers like IT providers, logistic companies and many others which offer innovative products are facing day to day, a highly competitive market. Innovative products have often a short life cycle which are due to fast moving innovation. In today's global world this leads into a massive amount of information about products from the competition and the competitive organization itself. Such information is important when an organization develops its own corporate strategy. The Knowledge about the competition can often be the key to success.

Porter wrote already in 2004 that in the times of increasing competition companies should focus and concentrate on a differentiation strategy (Porter, 2004:2-22). Therefore a wide range of information and analysis are mandatory, because every management decision is only as good as the information on which it was based on (Michaeli, 2006:4). Competitive advantage can be a new pricing strategy, development of new products or the expansion into new markets (Leitl, 2005:1-2). If we take for example the "blue ocean strategy" from Chan

W. Kim and Renée Mauborgne then the smallest innovative change of a product combined with the right marketing strategy and illustration for a customer can gain extremely positive results (Kim & Mauborgne, 2004:69-80).

MATERIAL AND METHODS

The word competitive comes from competition and stands for competitive orientated and therefore the directions of the task. "Intelligence" is originally based on military vocabulary and has the meaning of early recognition as a protection against a surprising attack of enemy troops. Similar requirements have business organizations. They need selective information about the enemies (competition/markets) to make the right decisions for the future. With such information's companies can deflect competitive strategies (Michaeli, 2006:3).

The author has the target with this document to introduce the topic of competitive intelligence to the reader. The first part includes the definition of competitive intelligence, the second part the tasks and targets and the third part the CI cycle to get from theory into real life. Information sources and the limitations of competitive intelligence complete the third part.

RESULTS AND DISCUSSION

Competitive Intelligence or CI uses legal methods for a selective competitive observation. The target is to recognize the proposition of the competition and to generate personal benefits for the own organization (<http://www.ci-handbuch.de/konkurrenzanalyse/competitive-intelligence.htm>). Romppel defines CI also as systematic, professional and decision focused research and analysis of the competition, the market and the market conditions (Romppel, 2006:10). The difference between market research and CI is, that CI is focused on the competition of an organization and not on customer's and customer behaviour. Ideally organization can foresee the actions of the competition and react very fast with a counter attack. A counter attack for example is when the competition is very close to lunch a new product, the own company becomes aware of it and lunches a similar product faster to protects or increase the own market share.

Another CI definition comes from the "Society Intelligence Professionals" (SCIP). They describe CI as the process of an ethical correct collection, analysis and distribution of accurate, relevant, specific, on time, future based and action orientated knowledge (Intelligence) about the economical environment, the competition and the own organization (Romppel, 2006:42). This definition underline's that Competitive Intelligence is not only about the competitors. The focus covers also on the complete macro environment e.g. ecological, economical, social, technological, legal and political conditions (Herring, 1992:54-60). It doesn't matter if for the pricing strategies, for lunching new product's or for expanding / entering to new markets: CI delivers for all areas detailed information about market participants to the management - for a better understanding and therefore to much better foundation for making decisions (<http://www.harvardbusinessmanager.de/heft/artikel/a-621265.html>).

"With the right methods for monitoring the competition, companies can recognize many years in advanced the direction of the competition or the risks which can appear" says Rüdiger Buchkremer a Professor and former CIO. Buchkremer has a lot of trust in his area "The Competitive Intelligence". He also assumes that CI can help to avoid crisis (<http://www.cio.de/891608>).

Many authors see Michael Porter as the father of CI, because he defined already in 1980 in his book "Competitive Strategy: Techniques for Analysing Industries and Competitors" (Leitl, 2005:1-2) the word "competitive Intelligence" as a direct analysis of the competition (Porter, 2000:3). Porter also includes customers, suppliers and the companies which offer substitute products in his models (Porter, 2000:25-30).

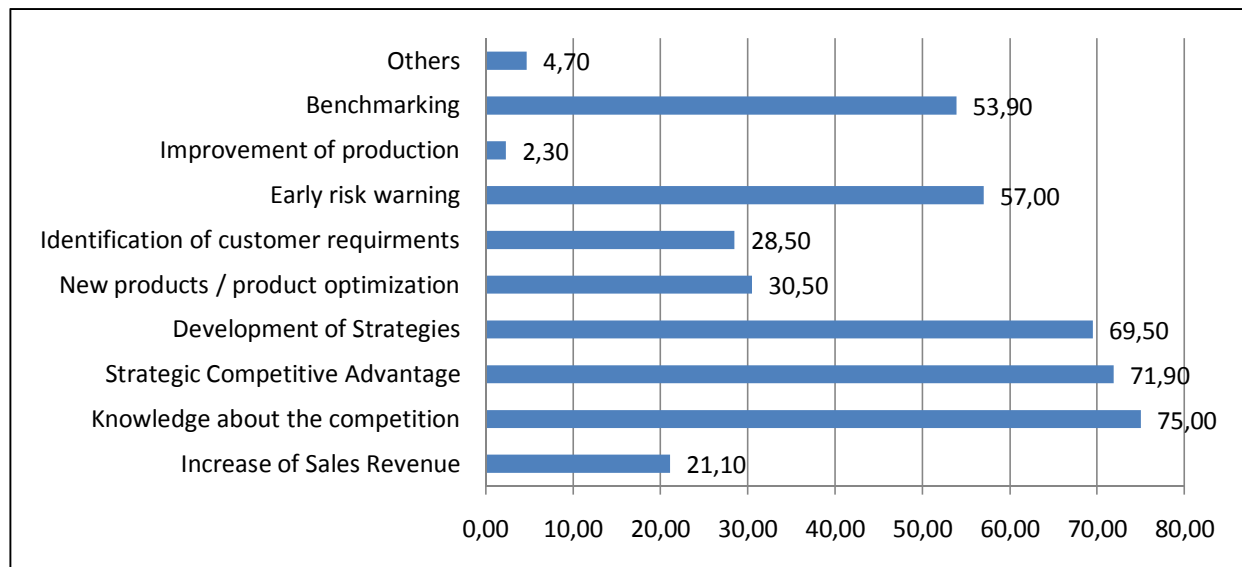
Michaeli defines as the target of competitive intelligence with: “The capability of a company for permanent success in a changing environment”. Not the largest or apparently strongest organization will survive, but the one which can adapt to all the changes (Michaeli, 2006:21). For Kahaner is the development of a competitive advantage the target of CI (Kahaner, 1998:19). CI work is most often done from people in an organization which are located in the areas of sales & marketing, product or company development, management or in a consulting role. Suddenly they get confronted with the question “What do you know about our competition?”. This happens often with a nasty surprise, which could have been avoided or foreseen with the help of competitive intelligence (Romppel, 2006:11).

Paff defines the targets and tasks with building an extensive competitive information system which is the foundation for strategy and possible reactions (Pfaff 2005:30). Companies expect especially statements and impacts for the own organization and recommendations for action points (Michaeli, 2006:4).

The most important task of competitive intelligence is the legal and ethical/morally correct collection of data. The collected data needs to be prepared and presented in the way in which the internal data in an organization is handled to build up knowledge (Michaeli, 2006:4). This knowledge will help the organization and especially the management to make better decision, because the data on which they base their decision is more comprehensive and from a wider range of sources. CI is therefore a help or a tool for the management to get an accurate and comprehensive overview about the competitive environment and the competitive market situation (Pfaff, 2005:30). However companies and organizations which make use of CI should not forget that also influencer like independent analysts e.g. Gartner, Forester, ARM and others can have a big impact on the buying decision within B2B markets.

Lux und Peske wrote that CI is not only used for strategic planning. CI fulfils now the approach of the “Strategic and Competitive Intelligence Professionals (SCIP) which means the function to assist decision makers with aggregated and used information in the decision making process of an organization (Lux & Peske, 2002:61). Many of those decisions are made in various departments of an organization like product management or product development. For them is competitive intelligence often an important information source about the strength and weakness of several competitive products for a better adjustment of the own product portfolio.

Figure – Reasons for CI (Source Paff et al., 2003:48)



The success of competitive intelligence is not often measurable. A published study from 2002 from PricewaterhouseCoopers highlights that organization where the CEO rates the information about the competition as important - grew 20 % faster than others (Romppel, 2006:44).

Another important part of CI is the information flow in the sales departments. Detailed information about the offering of a competitor or the current behaviour of a competitor can affect the revenue in a very positive way. Sale people require often an overview about the strength of the own products, the differentiation factors between organizations as well as the own strategic direction. This helps especially in the B2B market as the author can confirm as a manager of a sales team in a saturated B2B market. Nowadays customers of a software company like to get involved in product development via a customer advisory board. Customers who buy a product and enter into a long term partnership want to understand the strategic direction of important suppliers.

Competitive Intelligence also helps to convince potential investors by presenting the advantages against the competition or complementary products. In addition CI can help preventing hostile acquisitions.

The competitive intelligence cycle is essential for the CI system and describes the method of a cross linked thinking for resolving complex problems by converting raw material / information to Knowledge or Intelligence (Paff, 2005:44). The CI cycle consist due to the illustration and details a least a minimum four steps. The CI consultant “Novintel” which is also a founder of the “Global Intelligence Alliance” included about eight steps in their model (Romppel, 2006:45). The eight steps model is very detailed and gives companies which start with CI a good overview about the steps to complete.

Figure - CI Cycle from the “Global Intelligence Alliance (Introduction to Competitive Intelligence, GIA, 2004)



The CI cycle is a good model which shows the reader the different phases of CI even if they overlap in real life and if the cycle has to be completed more than once. The CI cycle also helps not to forget one or more steps (<http://www.ci-handbuch.de/intelligence-cycle/competitive-intelligence.htm>) and it a very good guidance for people starting with CI. The different steps of the CI cycle or process have to be completed after each other, also additional during the survey collected information can start the next or a previous step within the competitive intelligence cycle (Pfaff, 2005:44). With step “1.Need Analysis” companies need to define what they will search for e.g. one profile for every main competitor or a market observation. This leads to the questions “Which information is needed” and “Which resources or information sources to use”. As soon as those questions are answered - people can start searching for information and completing the following steps (Manata, 2009:3-6).

Time to allocate for the steps of a CI cycle (Michaeli, 2006:117):

- 10% for Planning
- 40% for Data Collection / Sourcing
- 30% for Processing / Analysis
- 20% for Reporting, Communication and Documentation

The information sources to complete a search are either primary or secondary resources. Lux and Peske (2002:79) classify magazines, journals, books, internet or data bases are secondary resources. Leidl (Leidl, 2005:1-2) adds media and patent data bases as further potential sources. However sources like industry magazines or other printed documents which everybody can easily access are known to everybody (Manta, 2009:3-6). Romppel (2006:91) calls that information “Second Hand Information”. In this case companies access an unlimited amount of internal and external data, which was collected from own resources or from a third party. If collected from a third party - the data was often collected for similar reasons which will be prepared again before the usage (Pfaff, 2005:50). Often the information / data have not

the required quality or extension. This is due to the reason that the collection was often based on totally different topics. One good example is when B2B companies buy addresses from companies like Dun and Bradstreet, Creditreform or others. Often only the address is right, but contact persons have changed already some time ago.

The secondary research is therefore used for a basic research to analyse the fundamental framework of a research project (Romppel, 2006:50). Companies often use the internet including the invisible net, print media, the company register and clipping services. Since a couple of years there is also the option to install and run an own web crawler which collects all data to defined key words. Important is to differentiate the unimportant findings from the once which are important and such a task can be very time consuming.

The difference between primary and secondary resource is that primary resources have a direct contact to a human being for the reason of collection information or data (Lux & Peske, 2002:79). This type of research is also called "Human Intelligence" or short HUMIT. HUMIT is one of the essential success factors for a competitive intelligence project. The key of HUMIT is the personal contact with knowledge people and to information which are normally not available. If those personal contacts happen in face-to-face meeting or via a telephone call is not important. Options for personal contacts are talking to suppliers, customers or analysts.. Another source for evaluating business contacts are business platforms like "XING" (Manta, 2009:3-6) or "Linkedin". Many people make use of such business platforms and try to build up new relationships. Those platforms have the advantage to contact in a fast and simple way business people or to join discussion about various topics. Primary resources are more time consuming than others, because for a personal contact questions or required information have to be prepared. One way if getting competitive information is to invite candidates which apply for a job and work or have worked recently for a competitor.

Competitive Intelligence is limited to the legal way to accessing information. Some companies and organization state already legal and ethical way to access information. A CI survey can produce a large amount of information or data. People in each company than have to decide is this information are useful or not. Sometimes it can happen that they take important information not into account, because the signal for importance is weak or people have a reduced perception. It also happens what people reduce the information the finding they expected to appear (Michaeli, 2006:83-116). It is also not easy to measure the success of competitive intelligence within a company. This is due to the fact that many factors are influencing the success of a company (Pfaff/Glasbrenner, 2004:44).

CONCLUSION

Competitive Intelligence is systematic and continuous approach to observe and to analyze the competition as well as the market behavior. A well-structured and strategically aligned competitive intelligence is an essential base for better management decisions. CI is especially important for the sustainability of staying ahead of the competition. Competitive advantage is a crucial point to survive in today's fast changing and innovative world with a highly global market. Michaeli (2006:X) confirms that there are no secret information, practise hints or comprehensive check lists for competitive intelligence. CI User have to build up own knowledge, techniques, check list's, own code of practise and much more. CI people are al rounder with a special education and critical lateral thinking.

*It is not the strongest of the species
that survives, nor the most intelligent,
it is the one that is most adaptable to change.
(Charles Darwin 1809-1882)*

More and more companies especially in the Small and Medium Enterprise Business should think about to build up on competitive intelligence skills. Building up such skill includes the investment of time and money to access necessary resources, too. Decisions for the strategy of a company or other management issues are only as good as the information and knowledge on which they are based on. To be prepared for the future and to be able to foresee market and competitive behaviour “Competitive Intelligence” is the right answer. Competitive intelligence (CI) is the professional and systematic approach to build up knowledge about the competition and about upcoming competitor, suppliers, the market and the possible treat from substitute products. Therefore CI is an important information source for every management to make better or more efficient decision when developing the company strategy.

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