A Competitive Intelligence (CI) Value Model for Companies

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ABSTRACT

Competitive Intelligence (CI) is a relatively new business process that has been implemented in many large companies in recent years. In many companies it is now a separate unit that reports directly to the CEO. Competitive intelligence practitioners gather public data, analyze it, and report on actionable findings with the intention of improving their company's competitive position in the marketplace. Best practices in competitive intelligence include strict adherence to a code of ethics as published by the Society of Competitive Intelligence Professionals. Also essential are executive support, education, and integration within the organization's planning and strategic development process. Use of competitive intelligence by medium and small companies is less prevalent in part because of difficulty in determining value from the process and justification for the cost. In this paper, a value model for competitive intelligence is presented as a means for companies to evaluate the benefits and justify the costs associated with establishing a competitive intelligence unit.

INTRODUCTION

It has been well established in the literature (Fuld, 2006; Miree & Prescott, 2000) that well-organized, mature CI programs can lead to sustainable and profitable growth. CI in fact helps to protect what a company has, and what the company wants to become. It is essential that CI be a regular input into normal corporate processes. New product development, sales proposals, strategy development, and other business functions all benefit from this intelligence input.

Basically, CI information and analysis processes answer questions about competitors. These answers help reduce risk and increase profits. CI as a discipline is a work in progress. Despite twenty plus years as a recognized business methodology, it has only been within the last 10 years that it has approached the mainstream of business thought. The Society of Competitive Intelligence Professionals (SCIP) was established as a support for CI and has been instrumental in its development.

CI is different from Business Intelligence (BI), Knowledge Management (KM), Market Research (MR), and other similar programs. Although the distinctions can be fine, the differences are in perspective and scope. KM is generally focused on internal knowledge. MR focuses more on customers, not competitors. BI is a broader term that can include aspects of competition that can refer to similar ideas as in KM but can also refer to non-competitive issues. CI is much more focused and defined. Although CI is focused within the organization, the scope is defined by the need to gather, analyze, and act on competitor intelligence.

The international aspects of business and markets have had a profound effect on competition. The great enabler is the internet. The internet has greatly accelerated globalization, but in the matter of competitive intelligence, the internet has made available to large and small businesses alike, unprecedented information access. The internet (and the corporate intranet) provides the accessibility, but information technology has provided the means for companies to utilize CI more effectively.

BEST PRACTICES

There are several key requirements necessary for a best-practice CI program. Of fundamental importance is defining a clear role for CI. CI must have clear objectives and goals or the program will wither and die. The role assigned must be significant and integral to business functions at the tactical and strategic levels where it can positively impact business performance.

It is also essential that CI programs have top management support. A high-ranking champion of CI is essential. Few CI programs are initiated proactively. The reason most CI programs are started is based on executive identification of underperforming assets (Prescott and Miller, 2001). The need is to maintain and strengthen the executive support that the program began with.

Gaining executive backing isn't the only support necessary for the CI program. A common denominator in successful CI programs is the involvement of all employees in the intelligence function (Prescott and Miller 2001). To do this well, the value of competitive intelligence needs to be promoted within the company. This need goes beyond the necessary training. A larger cultural change is required to get employees to embrace the value that CI can give to the company as well as to themselves. (Fleisher and Bensoussan, 2002).

Of utmost importance to the CI program, new or mature, is that it be ethically based. The professional organization for competitive intelligence, SCIP has a code of ethics that each member agrees to support and abide by. It is vital to the future of CI that companies comply with all applicable laws, respect confidentiality, and avoid conflicts of interest. (Prescott and Blenkhorn 2003).

The CI organization is most often embedded within the larger marketing and planning function. This practice is consistent with the need to assign a role to CI where it can best integrate with and improve performance. To a much lesser degree, CI might be found in the finance area (Prescott and Miller 2001). Although on the surface this might make some sense, marketing and planning is a better home for CI. A better home also requires the acceptance by those already in the marketing area.

If a competitive intelligence capability is to have any lasting effect on a company's performance, it should have its own organization and administration. How that organization may look is most dependent on how strategy and tactics are employed in the company. Should CI be centralized? Should CI be dispersed throughout the organization? If business units are mostly autonomous, with different needs, different products, and a different customer base, a decentralized CI function will probably be most appropriate and effective (Prescott and Miller 2001). On the other hand, if most of the strategy, planning, and tactics come from corporate headquarters, centralizing the competitive intelligence function is the correct approach. The most likely CI organization would be a hybrid of centralized and decentralized staff functions (Prescott, and Miller 2001). Regardless of where a company's CI function falls in this spectrum, ensuring the coordination between strategic and tactical intelligence is vital for enduring success.

VALUE MODEL FOR COMPETITIVE INTELLIGENCE

Determining the value returned by CI is problematic since only the costs of a CI program can be known with certainty, whereas the value returned is often speculative and circumstantial.

In an attempt to quantify the value of a CI program, the following model is proposed:

V (CI Program) = V (Opportunities) + V (Vulnerabilities) – CI Program Cost

Where:

V (Opportunities) is defined as the value of the opportunities discovered by CI and implemented by the company

V (Vulnerabilities) is defined as the value of the vulnerabilities exposed by CI and mitigated by the company

CI Program Cost is the total of the direct and indirect cost items attributed to the CI program.

V (Opportunities)

The value of discovered opportunities is defined as:

*Value (Opportunities) = CIPstrength / IndustryCompetitiveFactor * Company-Margin *AverageIndustry Sales*

Where:

CIPstrength measures managerial support, the level of IT infrastructure, and the competency of the company's CI program.

CIPstrength = ManagerialSupportFactor * ITinfrastructureFactor * Program-CompetencyFactor

ManagerialSupportFactor is the product of factors measuring CEO support, Officer support, and mid-level manager support.

Managerial support, especially at the CEO or Officer level, is an important and essential contributor to CI value.

ITinfrastructureFactor is defined as the product of assigned factors indicating Intranet (Yes or No), and the size of the IT department.

Intranet factor ≡ Yes =1.0, No = 0.5

An intranet is not essential to a CI program but the existence of one serves as an enabler of CI value.

IT infrastructure factor ≡ small = 0.5, medium = 1.3, large =1.5

More IT resources enable greater CI value, but diminishing returns play a role.

ProgramCompetency is the product of factors measuring program maturity, program staff size, staff experience, CI distribution, and CI culture.

Program maturity ≡ New = 0.9, Developing = 1.3, Experienced = 1.5

New programs may have missteps that actually diminish value, but developing and experienced programs are positive factors in measuring competency.

Staff size ≡ Small = 0.4, Medium = 1.0, Large = 1.5

Too small a staff can be overwhelmed by the enormity of the task – a larger staff is better (to a point).

Staff experience ≡ Low = 0.9, Experienced = 1.5, Expert = 1.9

The value of an experienced staff cannot be overstated.

CI distribution measures the degree of program centralization in relation to the number of strategic business units and is defined as:

*(CIfieldOfficeCount * CIfieldStaffCount / SBUCount*

A company with a diverse portfolio should be more decentralized than a company with only a few offerings.

CI culture ≡ Low = 0.2, Medium = 1.0, Strong = 2.0

The more CI is ingrained into the company culture, the better.

IndustryCompetitiveFactor is a factor that measures the degree of competitiveness in the particular industry. It is defined as the count of competitors in the top 50% of the market, divided by the difference between the market shares of the market leader and the market trailer in the top 50%.

IndustryCompetitiveFactor = CompetitorCount(top50%) / (LargestMktShare – SmallestMktShare)

Competition within an industry is good for the economy, but has an eroding effect on value. Competition is greater with a greater number of competitors, or where the difference in market shares between the market leader and market laggard is small.

CompanyMargin is the company's operating profit margin.

AvgIndustrySales is the average, per company sales within the industry.

V (Vulnerabilities)

The value of discovered vulnerabilities is defined as:

*Value(vulnerabilites) = IndustryCompetitiveFactor * CompanyMargin * AvgIn-dustrySales*

Full Model: **V (CI Program) = V (Opportunities) + V (Vulnerabilities) – CI Program Cost**

This model is one theoretical means for evaluating the value of CI for companies and is based on current thought and practice. There is a need for validation, testing and revision of the model.

CONCLUSIONS AND FUTURE RESEARCH

CI can no longer be ignored. It does, however, still struggle for mainstream recognition. Large businesses have embraced it to varying degrees, but medium and small businesses haven't yet accepted the idea and process of competitive intelligence. Another convergence will be necessary to firmly establish CI in the lexicon of business thought and process. Education in CI, and small business use of CI are separate issues, but together they will be the basis of the next leap forward for competitive intelligence.

From the small business perspective, typically there are limited resources, limited time, and little cushion to absorb strategic mistakes. CI can help avoid those mistakes, but CI consumes resources and takes time and therein lies the catch-22 facing small business and CI today. This is not to say that small business does not use CI, but given that small businesses comprise the largest segments of most free economies, CI is underutilized. The benefits and value from CI are not just under

the purview of large business – when small business recognizes this potential, CI will become an enduring means in the business world.

This paper provides a model for evaluating value to companies for establishing competitive intelligence initiatives. Future research might focus on empirical testing and analysis of this model for practical utility for companies. As more companies move in this direction it will become more imperative for companies to evaluate the cost/ benefit for their particular operations. Competitive intelligence will continue to play an important role in companies as global competition becomes even more apparent.

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