



Competitor Intelligence for the Smaller Enterprise

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A REPORT BY

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REPORT BY THE
**Competitive Intelligence – Marketing Interface
Teaching & Research Initiative
(CIMITRI)**

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ISBN No: 1857212940

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JUNE 1999

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Competitor Intelligence for the Smaller Enterprise

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Introduction

The practice of Competitor Intelligence (CI) is well established in the USA where it is estimated that 80% of all firms utilise it to their competitive advantage. Within the UK, however, it is only gradually becoming a part of the strategic activity of large multi-nationals which have realised the benefit of “being aware”. Unfortunately, it is hardly ever mentioned within the small and medium sized enterprise (SME) sector which has so much to gain from engaging in CI. Competitor activity is a fundamental part of every market. Understanding it through CI provides opportunities for profitable growth. Lack of understanding results in increased risk of failure. The two most commonly stated problems for SMEs are “too many competitors” and “large competitors” so it makes good sense to know what they are doing. Even the smallest attention to this area has the potential to make an immense contribution to business success.

This report discusses the benefits that Competitor Intelligence can bring, where to obtain it (often inexpensively or free) and assesses how SMEs can use CI to their benefit to formulate successful business strategies. Recommendations are provided for those firms wishing to use CI in order to achieve competitive advantage through a greater knowledge of the competitive situation.

What is Competitor Intelligence?

Competitor Intelligence is often mistakenly identified as market research, but it is not. The focus for market research is, obviously, the market, and inevitably, customers. CI investigates the activities of competitors and assesses the impact of any strategic shifts or market activity which will impact on the firm. This, coupled with the findings from market research which should provide indicators of market growth, customer preferences and segmental attractiveness, is a powerful tool to help guide the firm towards continued growth. It is not spying, nor is it illegal. It is both a short and a long term approach to formulating business strategy.

The Essential Element in Competitive Strategy

It can be assumed that for an SME there is, understandably, a focused attention on short-term activity. This causes a problem when carrying out CI as it is an activity best accomplished without the requirement for an immediate result. It is difficult also to try to present any form of investment analysis for a CI operation. When bidding for scarce resources within any firm, it is always easier to invest in a project that has a short term payback, yet the formulation of competitive strategy requires a medium to long term view. Whereas CI can deliver short term benefits it is the process of gathering information for the medium to long term that makes it particularly invaluable.

Competitor Intelligence provides essential information about the market's 'players'. Existing firms may be working within the 'rules of the game' at the current time, but if new competitors enter the market, or if a large existing player finds it necessary to alter the rules to retain its competitive advantage, it is often the smaller firms which get hurt the most. This is especially true if small firms are reliant on revenues from just a few or perhaps only one product. The small firm's single product may be made obsolete within a week or even a day, in the wake of a larger competitor's product launch strategy, or the firm may be sucked into an unsustainable price war.

Large firms would be able to offset losses on an obsolete product by developing other products in their portfolio, or by pulling out of the market altogether and absorbing the associated costs. For a small firm, this could result in closure, redundancies, bankruptcy and despair. Small firms often boast of their ability to make a quick response to market shifts, yet few are able to accommodate the emotional, physical and financial costs of an obsolete product, especially if that obsolescence comes as a surprise and expansion plans had been built on a smooth, upwardly curving, revenue stream. Quick responses are predicated on timely information and early warnings. Without CI neither are likely to be provided.

It is for this reason that CI is as equally, if not more, important to the SME sector as it is to large firms, although paradoxically up until now, it is the large firms which have formally embraced the concept of CI.

CI forces the firm to ask, and seek answers to, questions such as:

- Which of the companies I currently compete with pose the most threat to my firm's survival and ultimately my job and/or livelihood?
- Is there a possibility of new entrants coming into my market and changing the rules of the game, making my product obsolete?
- Are there any other products which my customers could substitute for mine?
- How important is my offering within the customer's final product – would they demand more for less if their situation tightened?
- If the prices of the raw materials I use to make my product increase, am I so insignificant in revenue to the supplier that I will be forced to bear all the costs of the price rise?

- Are any of my competitors in a better position than my firm to take advantage of changes in the business environment?

CI greatly aids forecasting, adding another layer of intelligence to the more commonly used external analysis models and can sometimes challenge the underlying assumptions about economic, political, technological or market related factors. It also provides the chance to identify weaknesses in competitors and can assess the impact of that on the firm.

It is clear that SMEs do not, nor even need to, use intricate or complicated strategic direction matrices. Their businesses are unlikely to be so complex to warrant the time and effort required to carry out this type of analysis accurately, but they do need to plan meticulously for the future if gaining competitive ground is a serious business ambition. An illuminating example often quoted by Herbert Meyer, a CI professional, illustrates the point: “You know those little boxes of juice they have now for kid’s lunches? Those little boxes knocked out half the canning industry. The people who kill you these days are not even your existing competitors”.

Threats can come from there being too many competitors (some large), customers viewing the competing products as undifferentiated and the ever presence of substitute products that could equally satisfy customer needs. Therefore the issues for an SME are typically centred on product specification, pricing levels, promotional activities and distribution channels, all of which are derived from an understanding of what is currently possible and what is strategically desirable. The activity which can best inform all these issues is Competitor Intelligence.

Competitor Intelligence is not a new ‘fad’. It was reported as early as December 1989 in the publication, *Sales & Marketing Management*, that “most victories result from well-designed products or services, hard-won marketing campaigns and the strategic use of intelligence. Most failures come from a combination of bad timing, poor judgement and misuse or under use of business intelligence”.

Gathering Competitor Intelligence

CI has many methods of data collection. Research carried out within the small enterprise sector has revealed that the following methods are those most likely to be appropriate to the SME sector. This list is selective rather than exhaustive and should be viewed as the absolute minimum a firm should engage in, to secure an awareness of the competitive environment. It is important to remember that many more expensive techniques can be used, once the momentum has started. Those mentioned here, however, make a very good starting point for firms which are considering starting a CI operation but are unable to commit vast resources.

- The initial search for information on competitors has to start within the organisation. A conservative estimate would say that 60% of the information needed is already in the company, it is simply a matter of organising it, analysing it and disseminating it, in an actionable form, to the decision makers. CI active firms make it easy for employees to discuss or provide information to each other, either electronically or in person, so that the intelligence process flourishes.
- 'Data mining' aims to develop internal records such as market share analysis, customer complaint cards, purchase orders and production reports into intelligence reports which can be embellished with information from individuals working in the firm. Staff may have knowledge of competing firms, they may have worked in the competing firm, or have been a supplier or a customer of it. Indeed, the CI process is geared towards engaging staff in the intelligence process. No information should be given out to another firm without some nugget being returned. Every contact made with a customer should enquire about competing products, every contact made with a supplier should enquire about competitor orders and anybody attending even the smallest trade show should be alerted to the potential for Competitor Intelligence gathering. The trick is to ensure that all relevant information is reported.
- Trade Shows and Exhibitions represent a comprehensive source of trade literature. They bring manufacturers and service providers into close touch with potential customers. They also place competitors' stands close to each other, all attended by exhibitors who want to talk and give away as much product information as possible. Staff seconded to such events may have been selected for their ability to handle awkward technical questions – so make sure you ask some. These same people may be inexperienced handlers of the public so erudite questioning may reveal extremely useful information or better still, earn you a referral to a Manager or Director to whom you would never be able to gain access in the normal course of business. Questions on how successful last year's efforts had been and how many leads this one had brought in compared to the last could reveal their focus of attention and anticipated growth prospects.
- Any opportunity to obtain a competitor's price list and promotional literature such as catalogues and brochures should be grasped. A very good view of the firm's attitude towards customers can be gleaned from these sources. When reviewing these ask yourself, how professional does the material look, would you be comfortable buying from the firm, how easy is it to find any one product, what are the delivery terms, what are the payment terms, are the item descriptions sufficient enough for a customer to make a decision, can I order direct, do they use agents? The answers to these questions may highlight gaps in either product offering or customer service. Such material is freely available and should be an early and key component of any competitor file.
- Belonging to Trade Associations brings sector specific benefits. Such bodies tend to produce "state of the sector" reports which provide a good overview of key concerns and challenges. The cost of these and other publications from industry specialists are rarely prohibitive as the objective is to disseminate information to help firms be more competitive and not just make profit from selling the report. Reports produced by Government Departments tend to provide the bigger picture of where specific sectors and firms fit into the national economy. These are frequently free or, at worst, sold at a price which seeks to simply cover the cost of production.

- The Annual Report of any limited liability or public limited company is available through returns made to Companies House and amongst other items, provide information on sales, or more importantly, trends in sales. The Chairman's statement in these documents frequently points to areas of concern to the firm and potential future strategies. Remember that whilst trying to please investors with plans of future growth, this will inevitably inform competitors as well. They may highlight warnings for the firms in its existing and potential new markets and include results of its own market research reports, thus lessening the smaller firm's need to commission such a study.
- Access to the Internet is now essential for any firm wishing to be aware of its competitive environment. Even the smallest firm has access to a computer and it is a small expense, compared to the benefits obtained, to gain access to the Internet. A firm's presence through a Web Site not only provides a relatively simple medium for advertising but it also provides the chance to interrogate a competitor's offering by posing as a customer and assessing the competitor's efficiency in handling a request. Also available through this route are market reports, government statistics, on-line databases (many of which are sector specific) and advertising material, not just for the UK, but for the USA, EU, Oceania and Asia Pacific countries.
- Other options are to hire competitors' staff, providing a multi-dimensional external view of the firm and gaining an insight into how the competition approaches its market. Many industries have policies of not recruiting between major companies, or as in the United States, have regulations regarding the nature of an individual's work after he or she has moved from company to company. However a firm would be naive if it did not thoroughly debrief competitors' former employees when they joined. Blue chip firms have long been a training ground for marketing and production people who then move to smaller firms where their impact can be greater appreciated.
- Monitoring the recruitment activities of a competitor can be very revealing and is as much a public statement of expansion as a redundancy statement is of contraction or re-focusing. It is also a good indicator of a firm's priorities. Large scale increases of say 600+ in a particular industry sector, most often manufacturing or financial services, will be announced through the National media. Smaller increases which affect a localised area will be announced through the local press, as will any locally sensitive redundancy plans. However, an apparently insignificant advertisement for a Production Manager, or two Customer Service Managers from your principal competitor can have an equally significant impact on your firm. Such advertisements are expensive, even in the local media and a good return has to be achieved from just one or two insertions. Consequently, they tend to carry as much detail as possible about the type of person they want, the experience level required, and more often than not, the salary range they expect to pay.

- Along a similar vein, it is not uncommon for job advertisements to be placed in specific geographical areas in an attempt to induce the staff of competitors to apply. These are usually buried in a composite advertisement from either an Agency or Recruitment Selection firm. During interviews, valuable information is gained, usually from disgruntled employees wishing to convey their value to the hiring firm, which has no intention whatsoever of making an appointment. For the most part, the Recruitment Agency is unaware of the ulterior motive and are simply paid off for their services when the decision not to appoint is conveyed. Of course, the firm would have to be mindful of any infringements this might have on ethical behaviour policies, but it is important to know that whilst you may not be willing to go so far in the quest for CI, others are. It is not illegal and your firm could be their target.
- It is not unknown for manufacturing firms to carry out their CI via photo interpretation. A very good assessment of a firm's situation can be made from viewing the factory site, and addressing such questions as:
 - is the plant in good order?
 - does the plant look as if it needs critical maintenance?
 - does the amount of trucking traffic look right?
 - are major construction or demolition projects under way?

From this short introduction to CI techniques it can be seen that informed, quality competitor information is available, and once recognised, it becomes progressively easier to find. Experience tends to produce more reliable sources as contacts are built up and searching techniques, both inside and outside the firm, are sharpened. The key to successful CI though, is not to get over burdened by the gathering, but to place more emphasis on the analysis and focus on delivering actionable intelligence.

Using Competitor Intelligence

Gathering competitor intelligence is the easy part, albeit time consuming. Analysing the data, on the other hand, or understanding what it all means is more difficult. There are indicators of future situations which can highlight what might happen. For example, a job advertisement for an Advertising Manager for a major Food Retailer would not be considered unusual, except the fact that this particular retailer had never before engaged in any form of advertising. Not surprisingly, a series of TV advertisements, press releases and sponsorship deals suddenly appeared with an increased level of brand awareness being identified in the post-campaign research and a satisfying increase in market share.

To be able to recognise this indicator as a warning however, requires past knowledge of the competition and at least a rough view of the future. If the firm is in a slow moving industry, then forecasting needs to be years ahead, whilst more dynamic industries can enjoy a long term horizon of less than 3 years. Predicting future actions is not an exact science, but it is essential to have at least tried. Only by anticipating the action of competing firms, and reacting appropriately, can a firm hope to gain a sustainable lead. Benchmarking the best companies' products is one option but concentrating on what satisfied the customer yesterday, will simply be playing 'catch-up' whilst the competition place even greater resource on designing tomorrow's superior offering.

Trying to understand competitors' objectives is an important part of the CI process because it provides insights into whether the competitor is satisfied with its current profitability or market position and thus how likely it is to retain its present strategy. It is also essential to know which trade-offs the competitor will make in times of stress, between potentially conflicting objectives such as profitability, dividends, market share and market position.

Another important factor is the number of times a competitor has failed or succeeded in recent years. This can affect a competitor's confidence, for better or worse, and will certainly influence its attitude towards risk in the future. Such indicators and warnings are obtained through a thorough analysis of the material collected in the CI data collection phase.

Reports produced by journalists or industry sector specialists usually contain some independent comment on the future direction of the firm as an indicator to shareholders and other interested parties and on the added value they might expect from the forthcoming year's trading operation. If the report indicates continual development and investment within existing market segments, the competing firm may need to prepare itself for a competitor's updated product or promotional activity. If the indication is market share growth, then price reductions (long or short term) can be expected? If the report discusses a possible re-organisation of the sales effort, or the setting up of a telesales unit, it is a fair assumption that the sales drive will be somewhat more frantic to ensure that the investment makes a satisfactory return.

The introduction of a telesales operation by a large firm which previously was interested only in large deals, could indicate a downward shift into deals of a more modest size. A telesales unit is a very cost effective way for larger firms to target the smaller deals with inherently smaller margins. This could affect the business of a smaller competitor as it becomes a direct attack for market share.

The promotional literature of all companies describes their products and outlines how they are best suited to the customer. An updated version, with additional features might indicate a drive for market share. An assessment is then needed as to whether the customers in the target market will be swayed by the new offering and if it is necessary for the competitor to launch an offensive on price. If there are genuine superior benefits which have been introduced, then a quick calculation of the elapsed time between catalogue issues gives a good indication of the time the improvements took to develop. Short time spans between reprints indicate that the firm is actively redesigning and improving the products in incremental, but continuous, steps.

All companies have influence somewhere, and small or medium sized competitors which are unlikely to get a voice in the National press will certainly be interviewed by local journalists in the event of expansion or redundancy plans. Therefore, careful monitoring of the local press at manufacturing plant locations can be a good warning signal for future strategy.

Expanding businesses are highlighted by mergers, acquisitions and joint ventures. Whenever any of these are reported, a full simulation should then be run to try to understand the impact of the deal and the benefits for both sides. A merger between two small competitors results in one much larger one and a totally different strategy is then required to deal with that. If a competitor is looking to expand the premises then an awareness of local planning applications and decision dates will indicate whether the plan is likely to become reality. It is also important at this stage to consider whether the competitor knows more than you about future demand, or whether its activities suggest a new product in the pipeline. Will they gain an increased share of your market, or are they expanding into others which may encourage them to finance loss leaders in your market?

If a competitor is contracting in size though, does this mean a lack of demand or have they sold out to a bigger competitor or another firm wishing to enter the market? If the firm is closing, would they be prepared to sell their customer list or recommend your firm as a future supplier?

Personnel movements, often quoted in local or national press will highlight where the company is focusing its attentions. The appointment of a strong R&D Director will certainly highlight a firm's drive towards either product or process development. Redundancies or a re-design of facilities could herald the installation of improved manufacturing equipment. There will be an expected, and promised, return on investment from this expenditure, so be prepared for offensive marketing action.

The changing situation of suppliers is also a key warning to industry changes. If a common supplier to the industry starts to build close relationships with a competitor, this would warn of a long term supply contract which could result in your firm being forced into higher costs or secondary level service. Conversely, if the supplier is cutting down and is only serving you, the other firms must be changing their product offering and do not now need the part. Maybe they have found a cheaper substitute.

When studying competitors, be tuned into increases in promotional activity – they want your market share. Watch out for slackening demand if firms close – a competitor may have emerged with a better product. Listen to customers when they complain – another firm may be offering better service. If customers complain that your price is too high – look for the competitor which has lowered prices or is using the product as a loss leader. Remember that your competitors also need to survive and they will fight you to do so.

Conclusions

Understanding the capabilities and future strategies of competitors is a vital activity for all firms large or small. Traditionally, when competing with large firms, SMEs have relied on strengths such as flexibility, specialist service, bespoke product and a good understanding of customer needs. However, large firms which have seen their traditional markets contract are moving into areas previously dominated by SMEs. They will bring all of their 'large market' experience and behaviour to bear on the SME territory and this includes CI. Two of the four commonly stated problems for SMEs are 'too many competitors' and 'large competitors'. To continue to be ignorant of the actions of these two key influences on profitability, survival and future success is incredibly short sighted. Firms which have embraced CI have continued to use it and forge competitive strategies from the resulting information, helping to work towards sustainable competitive advantage.

Other CI Work Published by Leicester Business School

Members of the SIMS team are working on a number of parallel projects in CI and further reports are planned.

A report on CI in Action has also been completed and it is expected that this will be extended at the appropriate time. Other aspects of developing CI in Action is also planned.

Similarly, the findings of a study of UK firms enabled the presentation of a paper to the Academy of Marketing in 1998 titled '*Competitive Intelligence in UK firms, A Taxonomy of Attitude, Gathering, Use and Location Type*'. The findings from the work presented here, alongside other studies currently in place, will enable refinement and development of this taxonomy with the objective of presenting an exemplar for UK firms wishing to embrace CI activity.

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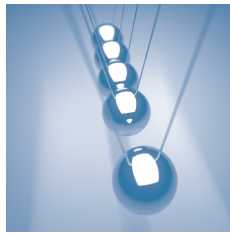
Sheila is a Principal Lecturer at Leicester Business School. She holds an MBA from the University of Warwick and was one of the first to receive Chartered Marketer status. With over 20 years marketing and business development experience, in the food processing, agribusiness and technology transfer industries she has been involved in CI since 1985. She is a Director of Strategic Partnerships Ltd and has worked on many international projects both industry and educationally based in Turkey, Italy, Portugal, Belgium, France, South Africa and USA. Her work on competitive intelligence and competitive marketing strategy is disseminated through post-graduate teaching, conference presentations, journal articles and consultancy assignments.

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Simon is a Marketing Manager with PricewaterhouseCoopers in Birmingham and has worked on several Competitor Intelligence projects in the smaller enterprise context. A graduate of Leicester Business School at De Montfort University, he took the opportunity to pursue his interest in CI by carrying out research with small firms to establish use, understanding and attitude in this sector. This resulted in a detailed study which was the subject of his Dissertation for the post graduate qualification of MSc Strategic Marketing. His work was also presented at the Small Business & Enterprise Development Conference held at the University of Sheffield in 1997. Simon has acted both as catalyst and adviser to several small firms wishing to engage in CI activity.

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David is Head, Department of Marketing at Leicester Business School. He is a Chartered Marketer with the Chartered Institute of Marketing and has many years industrial and consulting experience in both the public and private sectors. Alongside a number of practitioner Diplomas and a Cert. ITP from the University of Bocconi, Italy, David holds a Masters Degree in Marketing Management from the University of Lancaster. His work in the areas of strategic analysis, decision making, competitive intelligence and integrated marketing communications is disseminated through post-graduate teaching, conference presentations, journal articles and consultancy assignments.



ISBN: 1857212940

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