

Strategic CI: A Foundation of Competitive Success¹

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Much has been written about the art of gathering competitive intelligence (CI). Much of this has been about tactical CI, determining prices, product offerings, new product launches, advertising expenditures and the like. While these are undoubtedly critical pieces of information for the short term success of a product or a service, there is another level of competitive intelligence that helps firms achieve superior results relative to their competitors over the long term, namely strategic CI.

Unfortunately, the term 'strategy' has been misused, abused, and even distorted, over the past few decades, and as a result has fallen into disrepute. Some of the reasons for this are clear. Today we have product labelling strategies, garbage removal strategies and even e-mail filing strategies. And then there are the strategy pundits and consultants, much like stockbrokers – some of whom are worth their weight in gold, and some less so. But a company's strategy determines its success or failure. In a competitive environment, that strategy necessarily has to address competitive issues. In the words of Michael Porter², "competition is at the core of the success or failure of most firms".

If a firm's strategy is geared to determining its direction — and indeed formula for success — over the long term, then it needs to understand the competitive environment at a strategic level.

How does this differ from tactical CI? In tactical CI the objective is to gain information about a set of competitor's current and short-term future operations. Strategic CI focuses on the future of competitors, that is to say, on their strategies. Typically that would involve gaining insight into competitors' cost structures as opposed to product prices, ability to innovate, as opposed to product launches, expansion or contraction plans, as opposed to advertising budgets. The overriding goal, however, is to gain an understanding of the sources of rivals' competitive advantage.

But it doesn't stop there, because the competitive rivals in an industry representative the current competitive set, and strategy is about the future. So another goal is to understand possible future threats to the firm or industry. The fiercest rivals often emerge from non-traditional competitors. By way of example, the long term threat to business travel in the airline industry is more likely to come from telecommunications companies, than other airlines. With broadband networks and cost-effective videoconferencing, airlines will undoubtedly be under threat because the new technology provides such an efficient alternative.

The legendary Sun Tzu³ said:

"The good fighters of old first put themselves beyond the possibility of defeat, and then waited for an opportunity for defeating the enemy. To secure ourselves against defeat lies in our own hands, but the opportunity of defeating the enemy is provided by the enemy himself."

The military metaphor for competitive markets has been overused, but the insights provided by Sun Tzu are nevertheless still valid today. Knowledge of how to compete effectively, and when to launch an aggressive move is a key to competitive strategy. It is premised on reliable strategic competitive intelligence.

¹ Christie was asked to contribute this article on Strategic Competitive Intelligence to the March 2002 issue of Imprints, the official publication of the Professional Market Research Society of Canada. The theme of the issue was Competitive Intelligence gathering in all of its guises.

² Michael Porter: 'Competitive Advantage: Creating and Sustaining Superior Performance', The Free Press, 1985

³ Sun Tzu: "The Art of War", Edited by James Clavell, Hodder and Stoughton, London, 1981

The scope of strategic CI includes anything that has an impact on the long term success or failure of the firm. One critical, but often-overlooked, aspect of strategic CI, as illustrated in the example below, is gaining an understanding of how rivals management teams' think. That thinking is more often than not guided by the prevailing corporate culture.

The following example illustrates how strategic CI differs from tactical CI, and how it affects competitive action. Some years ago one of our clients in the plastic card industry engaged us in a strategic CI and industry analysis assignment. They wanted to ascertain how best to deal with a new competitor that had signalled their intention to build a highly sophisticated production facility in response to the perceived explosion in demand for smartcard products. During the investigation it emerged that the new entrant, a subsidiary of a large printing and publishing group, had made a substantial capital investment in highly sophisticated and automated card production equipment — state of the art technology — and in the words of the CEO of the new entrant, they had purchased “the mother of all laminators”. This investment was thought to be a key advantage in the marketplace by both customers and competitors.

Our prediction was that when the competitor's production facility came on stream they would buy market share, and indeed, that was the first thing that they did when they sought business. They responded to RFPs with prices for plastic cards which were “below cost”. They were able to do that because they had already made the capital investment in a highly automated plant (it was, for a time, regarded as a ‘sunk cost’ by their management), and the variable costs associated with the production of a plastic card tend to be very low.

A tactical response would have been to engage in a price war, which most of the other card manufacturers in the industry did — and bled, as a result. Tactical CI provided the information about the orders that the new player was winning, and the per unit prices that they were charging. By focusing the investigation at the strategic level — gaining insight into the new competitor's cost structure, quality of management (right down to the ego of the new CEO) and long term goals — we were able to show our client that the best strategic response was to do nothing and just “wait it out”, primarily because the new competitor was in an unsustainable situation. While the new player was able to recoup the variable costs associated with cards, at some point in the future they would have to secure business which would have provided them with a return on their capital investment.

Indeed, our client did lose market share to the new competitor —over a period of about a year — and they lost profits too, although they never made a loss. But after that, the management team of the new player were under pressure from the investors from their holding company, who were not keen to sustain losses on an ongoing basis, and forced them to “deal with the situation”. Suddenly the new entrant was faced with the difficult task of having to increase their prices to customers who had only switched to them on the basis of their low prices, but had had to put up with the concomitant teething problems associated with a new production facility racing down the learning curve. Eventually our client purchased the equipment from the erstwhile new entrant at “fire sale” prices.

The example provides a clear illustration of Sun Tzu's philosophy that “the opportunity of defeating the enemy is provided by the enemy himself”. The role of strategic CI is to provide the information base on which such strategic responses can be formulated.