Ostriches & Eagles
Competitive Intelligence Usage and Understanding in U.S. Companies

A Report by

Outward Insights, LLC
One Mountain Road, 2nd Floor
Burlington, MA 01803
Telephone: 781-359-9700 Fax: 781-240-3072

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Executive Summary

While a majority of U.S.-based companies claim to use competitive intelligence (CI) to guide their decision-making processes, a surprising number either underutilize intelligence or use it the wrong way. This excludes nearly 30% of companies that don’t even have, or don’t feel the need for, a CI system, despite today’s ultra-competitive environment. These “ostriches” – companies with their heads in the sand because they do not use intelligence or use it improperly – are missing the boat on a critical business tool.

Among other key findings:
- Financial goals are the most common measurement of intelligence effectiveness. This has not changed in nearly 10 years since The Futures Group* conducted a similar survey on intelligence in 1995.
- Twenty-nine percent of respondents admit that they do not have “an organized and systematic way to deliver competitive intelligence,” including 14% of the respondents with more than $1 billion in revenues.
- Bank of America is the top “eagle,” the best corporate intelligence user, according to the respondents.

Methodology: Outward Insights’ survey was conducted in November and December 2004. The survey consisted of telephone interviews with 100 senior executives at U.S. corporations in the aerospace, financial services, insurance, hi-tech, pharmaceutical, information services and utilities industries. Nearly two-thirds had revenues of more than $500 million and 37% had revenues greater than $1 billion.

NOTE: This report includes commentary from the principals of Outward Insights to augment some of the survey findings. The market for competitive intelligence is worth about $2 billion a year worldwide as reported by Reuters.

General Findings

Intelligence Use … or Misuse

In what is arguably the most competitive global marketplace in history, a surprisingly high number of U.S. companies do not consider intelligence when setting strategy, assessing competition or devising tactical or operational plans for their businesses. And of those who say that they have an organized and systematic way to deliver intelligence to company decision makers (71%), a large percentage of them do not have the means, understanding or interest to use it properly.

Twenty-nine percent of respondents admit that they do not have “an organized and systematic way to deliver competitive intelligence,” including 14% of the respondents with more than $1 billion in revenues. Of those lacking “an organized way,” 28% said they don’t have a need for it and 17% said they are unsure how to do it. Yet, 59% of the same group said that competitive intelligence was an integral part of their strategic
planning process, which makes one wonder where they get the intelligence they use and how valuable it is.

Companies using CI are much more likely to deploy it for tactical and operational reasons, rather than strategic ones. More than three-quarters (78%) of all respondents use CI for business development and sales purposes, and almost as many (74%) use it for new product launches. On the other hand, only 59% use CI for strategic alliances, joint ventures and licensing relationships, and 55% use it for research and development planning and execution. And, in another conundrum, while roughly two-thirds of all respondents (64%) said they use CI to “anticipate and thwart competitor strategies,” only 50% said they had a process for “delivering early warning of emerging threats and opportunities.”

COMMENTARY:
To be sure, using CI for tactical purposes is a sound business practice. However, it’s worrisome that companies that claim to have a developed process for gathering and analyzing competitive intelligence do not use it for big-ticket, strategic decisions where the stakes are high and uncertainty prevails. In a time where even the slightest strategic misstep can spell doom, companies are flying blind when making key corporate decisions.

Although many companies have a CI function, it’s not delivering the predictive analysis of competitors and other external factors that top executives need in order to develop strategy. More often than not, these so-called intelligence units are delivering little more than static competitor profiles and summaries of recent press reports. So, while many companies may have a competitive intelligence function, only a small fraction of these companies are using the function to its full potential.

Not surprisingly then, very few respondent companies used more sophisticated CI techniques, such as War Gaming, Scenario Planning and Competitor Response Modeling. War Gaming was used by only 19% of respondents and only 30% of companies with revenues over $1 billion. Scenario Planning was used by only 30% of the respondents, but by more than half of those (52%) from the pharmaceutical industry. Competitor Response Modeling was used by a quarter of the respondents (24%) but, again, the rate soared for the pharmaceutical industry, this time to 48%.

Two-fifths (40%) of respondents said they usually incorporate likely competitor reactions into their plans for launching new products or services. Oddly, the percentage of respondents who do so is greater with companies of revenues of less than $500 million (54%) than it is of companies with revenues greater than $1 billion (30%). Almost as many respondents (38%) said they “rarely or never” incorporate likely competitor reactions into their new product plans. Dramatic differences in this category were noted among respondents from different industries. For example, only 27% of hi-tech respondents said they integrated competitor reaction into their new product planning. Insurance (72%) and pharmaceutical (65%) respondents rely on it much more.
COMMENTARY:
Why this pervasive misuse of competitive intelligence? Two forces are probably at work:

- **Arrogance** – There is a belief in many companies that the actions and behavior of competitors don’t matter. As long as a company knows its customers and how to serve them, there is little reason to consider competitor responses to corporate actions – that is, until the competitor figures out a better way.

- **Ignorance** – Often, companies fail to consider competitor actions because they believe those actions are unknowable, and don’t even bother trying. Ignorance about the legal and ethical ways to research and analyze competitors is causing companies to compete on incomplete information.

**Intelligence System Effectiveness**

Almost half (46%) of respondents said they measure the effectiveness of their CI function by “financial goals met.” The next most important measures were “new products or services developed” (44%), “actions taken” (36%) and “costs avoided” (24%). Another 3% of respondents said that they don’t know how to measure effectiveness, and 16% said they don’t measure at all.

Disturbingly, almost two-fifths (38%) of respondents feel that CI does “not have sufficient stature” in their organizations to have a “significant impact,” including 30% of those from companies with revenues of more than $1 billion. This negative response is even higher among insurance (43%), hi-tech (46%) and pharmaceutical (48%) executives. One reason may be that fully one-third (33%) of all respondents do not believe that their company’s CI professionals have “sufficient skills and experience” to meet their needs. This number jumps to 55% for hi-tech respondents.

In addition, respondents believe the following problems hamper the success of CI in their respective companies:

- Insufficient funding – 43%
- Internal bureaucracy – 41%
- Intelligence team lacks sufficient clout – 28%
- Executives do not recognize value of intelligence – 20%

COMMENTARY:
Each year, top companies spend tens of millions of dollars on systems to analyze their internal information, but are unwilling to spend a small fraction of that amount on an intelligence function that can help them anticipate changes in the external environment. Yet, the biggest threats and opportunities come from outside – not inside – the organization.
The Intelligence “Eagles”

Financial service companies dominated the list of businesses that survey respondents believe make good use of CI, but no company had a strong percentage of support. Following is a comparison of the top companies with the most intelligence visions, the “eagles” of 2005 versus those of 1995*.

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Interestingly, 17% of respondents said that no companies make good use of CI.

* NOTE: Comparisons taken from a CI survey conducted for The Futures Group in 1995.

Industry Findings

Financial Services

Financial services differed from the survey norms in the following areas:

1. Less likely to have organized intelligence (61% vs. 71% norm).
2. Less likely to make intelligence an integral part of its strategic planning process (78% vs. 85% norm).
3. Less likely (42% vs. 50% norm) to have a process in place for delivering early warning of emerging threats and opportunities.
4. Less likely to use CI to anticipate and thwart competitor strategies (59% vs. 64% norm).
5. Less likely to integrate likely competitor reactions into plans for product and service launches (34% vs. 40% norm).
6. Less likely to engage in the following:
   a. Scenario Planning 15% vs. 30% norm
   b. Competitor Response Modeling 15% vs. 24% norm

7. Less likely to feel company’s intelligence professionals have sufficient skills and experience (61% vs. 66% norm).

8. Yet, financial service companies dominated when respondents were asked which companies make the best use of CI. Seven ranked in the top 11 and four made the top five (Bank of America, Toyota Motor Credit, Citigroup and JP Morgan Chase).

**Hi-Tech**

Hi-Tech differed from the survey norms in the following areas:

1. Most likely to have organized intelligence (82% vs. 71% norm), the highest percentage of the industry groups.

2. More likely to make intelligence an integral part of its strategic planning process (91% vs. 85% norm).

3. Most likely to make CI an integral part of the following tactical and operational decisions:
   a. Business development/sales 91% vs. 78% norm
   b. New product launches 91% vs. 74% norm
   c. Alliances and license relationships 73% vs. 59% norm
   d. R&D planning and execution 73% vs. 55% norm

4. Least likely to use CI for delivering early warning of emerging threats and opportunities (36% vs. 50% norm), the lowest percentage of all industry groups.

5. Least likely to integrate likely competitor reactions into plans for product and service launches (27% vs. 40% norm), the lowest percentage of all the industry groups.

6. Most likely than other industry sector peers to believe the following conditions hampers the success of its CI function:
   a. Insufficient funding 55% vs. 43% norm
   b. Internal bureaucracy 73% vs. 41% norm
   c. Intelligence team lacks needed skills 55% vs. 25% norm
   d. Executives do not recognize value of intelligence 55% vs. 20% norm

7. Least likely to use CI for competitor response modeling (91% vs. 76% norm).
8. Just two hi-tech companies (Motorola and IBM) ranked among the top 11 companies that respondents said make the best use of CI.

**Insurance**

Insurance differed from the survey norms in the following areas:

1. Most likely to make intelligence an integral part of its strategic planning process (100% vs. 85% norm), the best of all industry groups.

2. More likely to make CI an integral part of operational or tactical decisions such as business development/sales (86% vs. 78% norm) and strategic decisions such as R&D planning and execution (71% vs. 55%).

3. More likely to use CI to anticipate and thwart competitor strategies (71% vs. 64% norm).

4. Most likely to integrate likely competition reactions into plans for launching new products and services most of the time (72% vs. 40% norm), the highest of all the industry groups.

5. Most likely to feel that its CI professionals gave sufficient skills and experience to meet their needs (86% vs. 66% norm).

6. Most likely to use the measure of “meeting financial goals” to measure the effectiveness of its CI function (72% vs. 47% norm).

7. Respondents did not include any insurance companies among the top 11 that make the best use of CI.

**Pharmaceuticals/Medical**

Pharma/medical differed from the survey norms in the following areas:

1. More likely to have organized intelligence (74% vs. 71% norm).

2. More likely to make intelligence an integral part of its strategic planning process (96% vs. 85% norm).

3. Most likely to have a process in place for delivering early warning of emerging threats and opportunities (61% vs. 50% norm), the best of all industry groups.

4. Most likely to use CI to anticipate and thwart competitor strategies (83% vs. 64% norm).
5. More likely to integrate likely competition reactions into plans for launching new products and services most of the time (65% vs. 40% norm).

6. Least likely to feel that its CI function has sufficient stature in their organizations (48% vs. 59% norm).

7. Just two pharma/medical companies (Johnson & Johnson and United Health Care) ranked among the top 11 companies that respondents said make the best use of CI.