Connecting strategy and competitive intelligence: refocusing intelligence to produce critical strategy inputs

Liam Fahey

Liam Fahey, author of *Competitors* (Wiley, 1999), is a partner with Leadership Forum Inc., an executive leadership education company (Liam.Fahey@leadershipforuminc.com). He is an adjunct professor of strategic management at Babson College, Boston, Massachusetts.

In many companies, it's urgent that a more productive dialogue about strategy making take place between the executive leadership and the team responsible for creating critical marketplace insights – a team composed of the competitive intelligence professionals and the managers in other functional areas who work with them. As a diagnostic to determine whether your firm has this communications problem, ask yourself two questions: Does your firm endorse a collaborative inquiry that drives a strategy-intelligence linkage? Does intelligence about marketplace change stimulate strategic thinking and discussion? If the answer to either question is ''No,'' two factors are likely responsible.

First, executives do not know what guidance or specific questions to pose to the intelligence professionals. Their problem may be that they do not understand the role and contribution of intelligence to the strategy dialogue. As a result, in too many instances, they resort to broad and bland directives, such as: ''Tell us everything you know about competitor X'', or, ''Bring us up to speed on what is happening in this technology domain.''

Second, intelligence professionals fail to see strategy making as integral to their job and so do not challenge managers' long-held perspectives, viewpoints and assumptions. They are content instead to ''answer'' 1-800-like questions that frequently provide minimal insight into and understanding of the forces driving marketplace change – the emerging and future world in which strategy must win.

Rectifying this lack of communication at the heart of the strategy-intelligence linkage requires that senior executives guide and drive the dialogue by posing specific issues and questions to be addressed by intelligence. It also requires that intelligence professionals create intelligence outputs that become significant strategy inputs. The criterion for measuring ''significance'' should be: do executives and managers throughout the organization find the intelligence inputs relevant to strategy development and execution?

The goal of this combination – senior managers' guiding questions and the creation of genuine strategy inputs by intelligence professionals – is to achieve a major improvement in the capability of the intelligence function. Instead of merely producing a description of marketplace change this enhanced capability enables the intelligence function to routinely produce a strategic assessment. That is, the intelligence system can give corporate leadership an analysis of the implications of marketplace change for the firm's current and potential strategies. There are a number of steps a company must take to develop a competitive intelligence function with such a strategic focus. The place to start is with what executives need to know and what intelligence professionals need to expect to provide.

Intelligence as assessment: strategy-relevant implications

Any executive team is ultimately interested in answering three strategy-relevant questions[1]:

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1. Whether (and how) our current strategy should be changed?
2. How can our strategy be better executed?
3. What should our future strategy be?

In order to develop inputs of value to discussions dealing with these three questions, intelligence professionals need to:

- Know and understand the firm's current strategy[2].
- Be familiar with future strategy possibilities.
- Be comfortable in the language and conversations associated with strategy.
- Perform strategy analysis and intelligence work as if they were one and the same thing.

But what should these intelligence inputs to strategy address? How can they generate insights that will be relevant across different types of strategies or even different kinds of organizations?

Intelligence professionals need to focus on five strategy inputs: marketplace opportunities, competitor threats, competitive risks, key vulnerabilities and core assumptions. Each type of intelligence input requires considerable judgment and value-add on the part of intelligence professionals. Each input enables all members of the management team to engage in more intelligent – that is, better informed – dialogue around the three strategy questions noted above.

Marketplace opportunities

Strategy is ultimately about creating and realizing new marketplace opportunities. Opportunities address new ways of creating and delivering value for customers: new products or solutions; extending existing product lines, reconfiguring existing solutions.

The executive team continuously addresses two types of new marketplace opportunities:

1. Extending current opportunities. How can we extend opportunities that are the focus of our current strategy?
2. Potential marketplace opportunities. What opportunities beyond the reach of our current strategy should we be considering? What opportunities may be lurking but not yet fully evident in marketplace change?

Intelligence professionals thus must focus intently on assessing current and potential marketplace change to identify possibilities in both of these areas of opportunity.

1. Extending current opportunities

Short-term opportunities often center on identifying ways to modify the current strategy to add value for customers. Here are some examples of how intelligence created assessments leading to new opportunities to extend and leverage the current strategy:

- The intelligence team in one firm described in detail the marketplace strategy of its dominant rival and projected likely changes over the next year. The pattern it detected: the rival was moving fast to customize its ''total solution'' for all its larger customers. It was providing different levels of service and it was no longer charging a standard price. The

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implication: the firm would have to develop its own customized solution capability to avoid losing market share in a number of market segments. It is now putting in place its new solution offerings.

- In another firm, the intelligence team led an analysis of ''wins and losses'' in both corporate and governmental customers against two key rivals. Among other things, it discovered key discontinuities: one rival had broken from the traditional industry practice of responding to customers' requests for bids; the other rival had reversed its longstanding tactic of trying to be the lowest priced bidder. Insights into why these approaches were succeeding with some customers in some ''bid'' situations led the team to the assessment that a radical shift in its value proposition was needed. Instead of just offering solutions based solely on superiority in technical terms the firm needed to also convince customers of its ability and willingness to provide superior service and closer working relationships (even at slightly higher prices than rivals). Only by offering this broadened capability could the firm hope to gain share versus these two rivals. The resulting strategy shifts led to significant upturn in bids won in two key solution segments.
- Another intelligence team in an industrial product firm with responsibility for customer insight monitors patterns in customers' responses to rivals' new product introductions. The team focuses on which customers are switching from one rival to another. One intent is to ascertain new customer applications. The intelligence team ''feeds'' insights into how customers are deploying specific product applications to the product development team (to improve the next product generation) and to the sales force (to augment value in specific accounts).

In each of these examples, two key exchanges must occur between strategy and intelligence professionals.

First, the executive team must ''challenge'' the intelligence team to identify and develop the contours of new opportunities. For example, in the wins and loses case, the intelligence led team was asked to explain more than merely why losses had occurred. Executives established the expectation that the intelligence team would identify how greater ''share of pocket'' of key corporate and governmental customers could be achieved. Nothing less that developing the value proposition that would win these customers would be tolerated – otherwise the opportunity would not be realized.

Second, the intelligence team must demonstrate that it is fully committed to learning about the firm's strategy. The current strategy provides the framework for identifying and shaping the extension of current opportunities. The Customer Insight group shaped its learning about new customer applications into outputs designed to help R&D understand what customers required to solve specific application problems and to help the sales force add to the value delivered to customers.

2. Potential marketplace opportunities

The executive team also needs to develop strategy that, where possible, will be a winner tomorrow rather than just winning today.

Thus, the charge for intelligence is to help identify the marketplace opportunities that will be the focus of tomorrow's strategy.

Here are some examples of how intelligence teams in a number of firms assess current and projected change to alert executives to emerging and potential marketplace opportunities:

- Follow regulatory developments as a means to project the emergence or demise of specific regulations that open up access to new markets and/or allow the sale of specific products.
- Track and project R&D progress in specific research domains as one input to identifying potential new product breakthroughs at some point in the future.
- Conduct patent analysis to identify patterns in the transition from research to technology developments likely to lead to new products or significant product modifications.

- Use projections of a competitor's strategy to identify potential new products and thus emerging customer needs.
- Use projections of technology developments in related product areas to identify new products or solutions that could be in the marketplace in or two or more years.

A number of points need to be noted with regard to these types of longer-term opportunity identification, capture and specification. First, each intelligence team does not stop with the description of current change in the external marketplace. Rather, they willingly take on the challenge of dealing with the future – because that is where opportunities will come to pass. Second, they develop time-based sequences of change that may take them three or five or more years out into the future. For example, projecting how a substitute product might proceed through technology development, marketplace launch and initial market penetration may involve a timeline over the next two to five years. Third, the focus throughout the analysis is on determining whether and on developing how the projected change could be transformed into an opportunity for the firm.

Competitor threats

Opportunities would be so much easier to realize were it not for the presence of current and potential competitors. In short, strategy must win against rivals. Rivals' current and potential actions pose threats to any strategy's success. Competitor threats are defined as ways that a rival can inhibit a company's strategy from succeeding in the marketplace[3]. If threats are detected too late, resources tied up in supporting a strategy may be substantially wasted. If threats are detected long before they come to full fruition, strategy can be adapted to eliminate, ameliorate or avoid the threat.

Executives should pose the following three questions:

1. How might competitors most adversely affect our current strategy?
2. Which competitors are most likely to do so?
3. How might we best ''handle'' these threats?

Intelligence thus must assess current and potential competitor change for its strategy implications for threats[4]. First, the executive team must be alerted to current or potential competitor threats. Then, in addition, it must ask intelligence to go further: to assess their implications for the current strategy, for potential opportunities, for winning against specific rivals.

Here as some illustrations of intelligence identifying and assessing the implications of competitor threats:

- An intelligence team developed a projection of a recent entrant's likely penetration of a key customer segment based upon its initial success. As one intelligence output, given that the market was only growing at 2 per cent per annum and the rival's solution was functionally superior, the team developed a business case for the firm to milk its current product line and add the marketing savings to the R&D budget intended to develop the next product generation.

- A member of an intelligence team learned that a rival was considering an alliance with a smaller technology driven rival renowned for its ability to develop new products. The intelligence team's assessment was that the firm would face significantly more difficulty in sustaining its product leadership if the alliance were to take place. It developed a timeline for the executive team around likely technology and product developments that might result from the alliance. The executive team quickly committed to two actions: to approach the small technology driven rival to gauge its interest in developing a licensing relationship and to look for new sources of technology outside the traditional boundaries of the industry.
- The head of business intelligence in one firm led a war-gaming exercise to formally assess how the dynamics of rivalry among four firms might play out over the following two-year period. One threat became clear: The second leading market share rival

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possessed all the capabilities to flood the market with product as one possible strategy to radically shift the competitive dynamics. If it were to do so, all rivals would incur a dramatic downturn in their financial performance. This insight was then transformed into an array of actions the competitor might take and the pre-emptive and responsive actions the firm might be able to execute depending on the specific set of actions adopted by the competitor. Based in part on these strategy inputs, the executive team committed to an R&D investment program intended to leapfrog rivals' products.

These cases again illustrate that the intelligence value-add stems not so much from identifying current or potential competitor threats but assessing their strategy and operations implications. It transforms the ''what. . .so'' of the presence of threats into the ''so. . .what'' of their meaning for strategy.

Competitive risks

But strategy is played out over time in a marketplace or competitive context that extends well beyond competitors. Change in and around the marketplace (being driven by customers, channels, suppliers, governmental agencies, technology houses, political parties, etc) is the source not only of marketing opportunities and competitor threats but of competitive risks[5].

These risks include any marketplace change that could negatively impact the firm's current or potential strategy. Executives need to know, as early as possible, what marketplace risks may be associated with the current strategy or with potential strategy shifts intended to pursue new opportunities. Intelligence-based assessment of the implications of risks can shift the executive team's ''understanding'' of an opportunity or a strategy alternative and dramatically influence whether the opportunity or alternative is evaluated as a ''go'', a ''hold'' or a ''fold.''

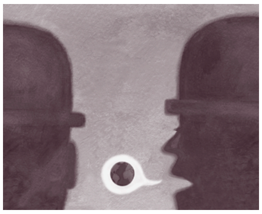
Assessment of marketplace change always leads to the identification of strategy-related risks. Some risks may be immediate and totally evident in today's competitive landscape; others may be longer-term and only partially evident. Sometimes, intelligence truly earns its spurs by detecting and identifying the implications of risks that may not be evident at all in today's world. An executive team therefore should always pose the following three questions to its intelligence team:

1. What competitive risks does our current strategy face?
2. What competitive risks might we face in the future?
3. How can we best manage these risks?

Tailoring responses to these broad questions compels the intelligence team to look beyond competitive trends, patterns and discontinuities to isolate and assess risks and demonstrate how they might negatively impact the pursuit of specific opportunities.

Here are some examples:

- A number of years ago, a consumer food firm detailed the likely trajectory of health considerations spawned by a potential upsurge in obesity and diabetes. The risks were clear to the market intelligence team though not then evident in marketplace concerns or behaviors: food firms that did not adapt their products to specific health care concerns would lose to those who did.



- By having members of its intelligence group visit key customer accounts to discuss technology change in their businesses, a shift toward new manufacturing technologies was detected. They assessed that these technologies would develop in a direction that would no longer require a number of their firm's product components. Hence, emerging technology change was becoming the key strategy risk. The result: over time, the firm switched to developing new components compatible with the new technologies.
- As part of its ongoing ''industry review'', the intelligence team in an electronics firm noted that one supplier was likely positioning itself to become a rival. The team judged that the supplier with the assistance of an alliance partner could begin to sell directly to a number of distribution channels. The risk to the firm's sales through these channels could be substantial. The team developed a set of strategy inputs around the speed of the supplier's entry, the volume of product they would provide, and the share of channels they might attain. The executive team is now addressing what to do.

As with competitor threats, identification and assessment of competitive risks focuses intelligence work on shaping strategy inputs that frame the executive dialogue around the three core strategy questions. For example, the senior executive team in the electronics firm developed different ''trajectories'' that the alliance could take over the next three years. Each trajectory, in turn, was further assessed for its implications on the current strategy: whether to add new product lines; which customers to try to lock in to longer term contracts; how to change the value proposition for individual customers.

Core assumptions

Strategies aim to realize marketplace opportunities and, in doing so, to handle competitor threats and competitive risks. However, any strategy is, by definition, based on assumptions about the future. Unfortunately, few organizations, as a routine part of strategy making, isolate, challenge and refine the pivotal assumptions underpinning a strategy thrust or suggested strategy shifts. Thus, a central opportunity exists for intelligence professionals to go beyond detecting and interpreting the likely direction of marketplace change: to identify, test and assess key assumptions about specific strategies that the executive team seems to be making or that they may need to make but are not[6].

The senior executive team can again pose three questions specific to assumptions:

1. What assumptions about marketplace change underpin our current strategy?
2. What assumptions should we make about emerging and potential marketplace change?
3. If we need to change our assumptions, what are the implications for strategy change?

To address these questions, intelligence professionals can focus assumption analysis on the firm's current strategy, potential strategy alternatives, and ''guiding'' marketplace assumptions. Each of the three assumption roles noted above – identifying, testing and assessing – allow the intelligence team to transform all the data it possesses about current and potential marketplace change into one set of critical insights for the executive team: a short list of key assumptions that focuses executive attention on the change in the external world that is truly important.

Current strategy

One focus of standard intelligence work in some firms is to address the key assumptions associated with the firm's current strategy. The intent is to clarify what assumptions the firm is actually making, and then challenge and refine them in view of intelligence team's understanding of current and potential marketplace change.

The initial question is: If we take the current strategy as a given, what assumptions is it making about (for example) purchasing patterns of customers, entry of new customers into the market, actions of rivals, emergence of substitute products, technology developments, regulatory change and economic trends? In one recent analysis, three key assumptions emerged:

1. No major rival would introduce a breakthrough new product for at least two years.
2. Over the next three years, customers would continue to purchase at the same average rate as in the prior three years.
3. The regulatory environment would not produce any negative surprises.

Once an initial set of assumptions are identified, the intelligence value-add is to test the validity of each one. Here is where the intelligence team brings to bear its knowledge and understanding of marketplace change. It asks three basic questions:

1. What evidence supports the assumption?
2. What is the strongest counter-evidence?
3. In view of the evidence, how would we recommend changing the assumption?

Dealing with these three questions enables intelligence professionals to lead the dialogue around assumptions. In the example, studying the first assumption – that no major rival would introduce a breakthrough new product for at least two years – the intelligence team reviewed the competitor analysis outputs conducted for each major rival. They searched for indicators of new product development including research program resource commitments, technology developments, product statements to the trade and channels, alliance developments and sales force comments to leading customers. The counter-evidence included the possibility that one or more major rivals could enter into research and technology relationships with technology houses outside the traditional boundaries of the industry (such as university laboratories) to create products with entirely new functionalities.

The intelligence team recommended holding the assumption as initially stated, but the analysis revealed that breakthrough products might emanate from sources outside the traditional major rivals. In particular, some indicators suggested the focus ought to be on substitute products rather than largely look-alike products. Some technology driven firms in related product areas seemed to have the capacity to develop product ''solutions'' that the firm's current customers might well find attractive. Hence, the intelligence team developed a new assumption to test its strategy implications: Substitute products with certain functionality features would be on the market in three to four years.

The power of this assumption stems from its strategy implications. If it proved correct, the firm's projected strategy around its current product thrust would prove far less successful than predicted by the strategic plan's five year financials.

Potential strategy alternatives

Intelligence professionals can also apply largely the same analysis framework to potential strategy alternatives, that is, new marketplace opportunities. Sometimes the results surprise the executive team. And, sometimes, they save the executive team from making a bad decision. Consider the following case:

The mergers and acquisitions (M&A) team in a large corporate enterprise proposed the acquisition of a medium-sized firm as one element in the firm's turnaround plan for one of its business-units. One of the M&A team's dominant though, implicit assumptions, was that the acquisition candidate's technology would be the source of significant new breakthrough products. This argument contradicted the intelligence team's assessment of the candidate's technologies: they were deemed inferior to emerging technologies as the source of the most likely successful products in this competitive space. The intelligence outputs caused a prolonged evaluation of a number of technologies at both the corporate and business unit levels. The outcome: the decision was made not to go forward with the proposed acquisition.

General (guiding) assumptions

At a more general level, intelligence professionals can generate what they judge to be the key general business assumptions that should guide management thinking. As strategy inputs, general assumptions can be prepared at multiple levels: corporate, business unit, and specific product sectors. They can also be developed for specific domains such as

> “What opportunities may be lurking but not yet fully evident in marketplace change?”

technology change, regulatory development or social/cultural shifts. Here’s an example of one business unit’s guiding assumptions about its industry in the face of emerging technology changes:

- The industry’s traditional core products will be revolutionized through technology change in the next five years.
- All current market share leaders in every industry niche will have to adapt their base product offering rapidly.
- New rivals will be attracted into the industry.
- Customers will switch back and forth among suppliers at significant higher rates than ever before.
- Even if the economy enters a downturn, industry growth (driven by the new technologies) will continue.

Intelligence can track indicators specific to each assumption to determine whether it understates or overstates the actual and anticipated industry change.

Vulnerabilities

Assessment also involves confronting the question: To what is our strategy (or potential strategy) most vulnerable? Or, as stated in some firms: What is it that could most critically affect our strategy and that we can least control? Such assessment forces both intelligence professionals and executives to go beyond merely listing competitor threats, competitor risks and key assumptions.

It compels analysis and ranking of current and potential threats and risks to identify those that could most severely impede a strategy’s success. It forces intelligence professionals to test assumptions to identify the ones, which if they were to prove false or were to change significantly, would negatively affect strategy success.

As in the case of threats and risks, vulnerabilities may be due to the actions of ‘‘actors’’ in the competitive space such as rivals, regulatory agencies or technology developers or to change reflected in events, patterns and discontinuities.

Here is the short list of vulnerabilities identified by a small software company as it prepared to launch a new product:

- A large competitor, with sufficient capability, might quickly develop and launch a functionally superior product.
- One or two key customers who might find the product did not fully meet their needs could ‘‘bad mouth’’ it at the upcoming industry show and thus start a stream of negative publicity.
- Two key product reviewers in the trade press might issue highly negative assessments of the product.
- A specific zealous rival might double or triple its marketing and sales efforts focusing on key corporate accounts targeted by the new product.

The intelligence team then assessed the strategy implications of each vulnerability. For example, if the large competitor did commit to launching a functionally superior solution, one implication might be to move faster, perhaps through an alliance relationship, to the next solution generation. Another implication might be to try to lock-in some customer relationships. Another implication might be to roll out the product much faster than originally planned to achieve maximum market penetration within six months. Each of these implications, when addressed in discussions between the management and intelligence teams, led to new insights for the executives about the competitive context and what was required to win against this rival.

Each vulnerability thus serves as a key strategy input. It forces the management team to consider what they would do if the vulnerability were to occur. It challenges the management to team to address whether each vulnerability represented a ‘‘blind spot’’ in their strategy development and execution.

Generating intelligence of value to strategy makers

The intelligence function needs to emphasize strategy inputs, alert management as early as possible to the presence and relevance of each input, and, perhaps most importantly of all, engage with members of the management team around the data and reasoning associated with each strategy input. A commitment to following these prescriptions will cause a significant shift in the intelligence modus operandi in most companies that will pay off in generating real strategy value.

Notes

1. Obviously, many sub-questions will be posed and they will vary depending on the specific strategy. See, Liam Fahey and Robert M. Randall, ‘‘Managing marketplace strategy’’ in Liam Fahey and Robert M. Randall (editors), *The Portable MBA in Strategy*, (John Wiley & Sons, New York, 2001),
2. Unfortunately, most firms do not sufficiently emphasize the importance of intelligence professionals understanding the current strategy and potential strategy alternatives. As a consequence, the intelligence professionals are severely handicapped when they attempt to identify and assess implications for strategy.
3. It is vitally important to note that although we are emphasizing competitor threats here, frequently, as the following cases show, competitors’ threats often provide the pathway to identifying marketplace opportunities.
4. For a detailed treatment of how to analyze current, emerging and potential competitors, see, Liam Fahey, *Competitors: Outwitting, Outmaneuvering and Outperforming* (John Wiley & Sons, New York, 1999),
5. Others have also emphasized the need to identify competitive risks and to do so as early as possible. See, for example, Ben Gilad, ‘‘Strategic early warning revisited,’’ *Competitive Intelligence*, Vol. 9, No. 2, March/April, 2006, pages 14-17
6. For a detailed assumptions analysis framework, a critical element in all forms of intelligence work, see, Liam Fahey, *Competitors: Outwitting, Outmaneuvering and Outperforming* (John Wiley & Sons, New York, 1999), pages 268-297.