USING COMPETITIVE INTELLIGENCE IN DETERMINING POTENTIAL COMPETITOR STRATEGIES

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ABSTRACT

It is critical for companies in today's competitive business environment to understand the impact and influence competitors and the external environment have on the success of their strategies and competitive advantage. Business must therefore comprehend how the strategies of competitors and forces of the external environment may affect the competitive advantage of the business.

Businesses require actionable intelligence to enable them to monitor, analyse and determine the impact from external environmental forces and actions from competitors. Businesses have to develop appropriate strategies to achieve competitive advantage over competitors in their industry.

The question which this study addresses, is whether businesses are able to monitor the strategies and influences from the external environment effectively. This is needed to gain a competitive advantage, and is accomplished by producing actionable intelligence utilising the competitive intelligence cycle. The purpose of the study is to determine how a business can utilise competitive intelligence in order to determine the potential strategies of competitors. To achieve these objectives, a literature study was completed on the subject matter.

This study has established that the competitive intelligence function consists of four distinct phases. Phase one determines the intelligence requirements of the end users of the intelligence. Phase two involves the collection of information. Phase three involves the analysis of the information in order to produce intelligence. Phase four disseminates the intelligence to the end users (those who requested the intelligence).

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Each of the four phases of the competitive intelligence cycle have been examined and discussed. Special reference and attention has been paid to the analytical techniques and tools – phase three – that id used to produce actionable intelligence.

The following analytical techniques have been discussed in the study:

- Competitor analysis
- Competitor's business relationships
- Customer segmentation analysis
- Financial ratio and statement analysis
- Industry analysis
- Invented competitors
- Macro environmental (STEEP) analysis
- Managerial profiling
- Scenario planning and analysis
- SWOT analysis

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The study has concluded that businesses can produce intelligence by utilising the competitive intelligence cycle in order to determine potential competitor strategies. The competitive intelligence cycle can provide intelligence for the business that will indicate competitor strategies, capabilities, strengths, weaknesses and trends or forces in the external environment that will shape and change the competitive environment. The conclusion and recommendation of this study is that the intelligence produced must be applied in the strategic management process to contribute in/assist in the formulation of strategies that will lead to competitive advantage.

DIE GEBRUIK VAN MEDEDINGENDE INTELLIGENSIE OM MEDEDINGERS SE POTENSIËLE STRATEGIEË TE BEPAAL

OPSOMMING

Dit is krities vir besighede om in vandag se kompeterende besigheidsomgewing die impak en invloede van kompeteerders en die eksterne besigheidsomgewing te begryp, veral die impak daarvan op die sukses van strategieë en die kompeterende voordeel van die besigheid. Dit is dus noodsaaklik vir besighede om te begryp hoe die strategieë van die kompeteerders en die kragte in die eksterne besigheidsomgewing, die besigheid se kompeterende voordeel kan beïnvloed.

Besighede het intelligensie nodig om die impak van die eksterne besigheidsomgewing en aksies van mededingers te monitor, te analiseer en die impak daarvan te bepaal. Die intelligensie is noodsaaklik vir die ontwikkeling van gepaste strategieë om 'n kompeterende voordeel te verkry bó die ander kompeteerders in die industrie.

Die studie ondersoek of dit moontlik is vir besighede om die strategieë en invloede van die eksterne omgewing effektief te monitor, om die potensiële strategieë van mededingers te kan bepaal deur die produsering van intelligensie met behulp van die mededingende intelligensiesiklus.

Die doel van die studie is om te bepaal hoe 'n besigheid mededingende intelligensie kan/moet aanwend om 'n kompeterende voordeel te verkry. 'n Literatuurstudie is voltooi om dié doel te bereik.

Die studie het bevind dat die mededingende intelligensiesiklus of -funksie uit vier afsonderlike en unieke fases bestaan. Fase een bepaal die intelligensiebehoeftes van die eindgebruikers van die intelligensie. Die tweede fase bestaan uit die insameling van informasie. Fase drie analiseer die inligting met die doel om intelligensie te verkry. Die laaste fase – fase vier – dissemineer die intelligensie na die eindgebruikers wat die intelligensie aangevra het.

Die studie het die vier fases afsonderlik ondersoek en bespreek en skenk spesifiek aandag aan analitiese tegnieke – fase drie – wat aangewend kan word om intelligensie te verkry.

Die volgende analitiese tegnieke is deur die studie ondersoek:

- Kompeteerderanalise
- Besigheidsverhoudings
- Kliëntsegmentasie-analise
- Analise van finansiële verhoudings en finansiële state
- Analise van die industrie
- Denkbeeldige kompeteerders
- Makro-omgewingsanalise
- Samestelling van bestuursprofiel
- Scenariobeplanning en -analise
- SWOT-analise

Die studie het bevind dat dit wel moontlik is vir besighede om intelligensie te verkry met die doel om mededingers se potensiële strategieë te bepaal, deur gebruik te maak van die mededingende intelligensiesiklus. Die mededingende

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intelligensie kan vir besighede intelligensie verskaf wat die kompeterende strategieë van kompeteerders, vermoë, sterk- en swakpunte asook tendense of faktore in die eksterne besigheidsomgewing identifiseer, wat 'n invloed uitoefen oor die mededingende landskap.

Die studie beveel aan dat die intelligensie wat verkry word uit die siklus, deel moet vorm van die strategiese bestuursproses, met die doel om strategieë te formuleer wat sal lei tot 'n kompeterende voordeel vir die besigheid.

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CHAPTER 1

INTRODUCTION, PURPOSE AND MOTIVATION FOR THE STUDY

1.1 INTRODUCTION

In today's business environment it is critical for companies to fully understand the impact and influences that the external environment may have in determining the success of their chosen strategies. The external environment, or macro environment consists out of three distinct areas namely, the general environment, industry and competitor's.

The general environment can be divided into six segments or spheres, that can be found in the broader society in which an organisation functions and have an influence on the industry and the organisations therein. They have been categorised as the economic, demographic, political/legal, technological, international and socio-cultural segments. The industry environment or second area of the external environment can be described as the set of factors that influences a company's competitive actions. The set of factors include: threat of new entrants, suppliers, buyers, substitute products and the intensity of competition in the industry among competitors. The third area of the external environment comprises the competitor environment, or in other words the direct competitors whom against an organisation competes for customers and market share (Hitt, Ireland & Hoskisson, 2001:51).

The external environment is described by Bateman & Snell (1999:52) as the forces outside of an organisation's boundaries, such as the customers, government regulation, competitors and the economy. Organisations must pay

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attention to new trends and developments occurring in the external environment in order to develop strategies that are applicable and to be competitive. It is therefore essential that organisations must react accordingly to these developments.

In a specific industry it is essential for organisations that compete for the same customers to anticipate and react according to their competitor's actions and strategies. The organisations must first identify competitors in the specific industry, followed by analysing the strategies and ways that these competitors compete. This must be completed in order to successfully compete for market share and competitive advantage, according to Bateman & Snell (1999:59).

Out of the above discussion it is evident that organisations must be able to comprehend how the external environment may positively or negatively affect the success of their strategies. This translates into the identification of possible threats or opportunities. Organisations may face the problem that they do not have the correct information available, or they do not sufficiently analyse the information. The term environmental uncertainty refers to the above problem, when an organisation does not have the correct or enough information available in order to analyse the information to anticipate or predict possible scenarios/developments (Bateman & Snell, 1999:64).

Hitt *et al.* (2001:208) is of the opinion that the external environment is also becoming more complex over time, thus making the interpretation of the information more difficult and increasing the speed by which the information must be collected and analysed in order to make the correct business decisions.

Neuland, Olivier & Venter (2002:1-3) argues that the new global business environment is characterised by rapid and discontinuous change. The implication for organisations is that they must become better informed about critical issues in their external environments, especially the factors over which they have minimal or no control. The result is that the external environmental analysis will continue playing an important role, the most vital tool being competitive intelligence (Neuland *et al.*, 2002:3).

Therefore the need to establish a strategic capability to monitor and analyse the external environment on an ongoing basis will be critical in ensuring that organisations are strategically and competitively well positioned in the market place according to Neuland *et al.* (2002:1). The vital tool is competitive intelligence, used as a strategic analytical tool that can be used within the strategic development framework of organisations. The goal is by using the intelligence or distilled information in gaining insight and perspective around the external environment, in order to anticipate possible future events or trends in order for the organisation to be competitively positioned. Due to the fact that the end result or product of a systematic, structured competitive intelligence process allows for analysis and proactive decision making process to take place (Neuland *et al.*, 2002:1-3).

Hitt *et al.* (2001:83) defines competitor intelligence as the business process of ethically gathering of competitor information and data in order to determine competitor's objectives, strategies and capabilities.

The concept competitive intelligence is defined by Kahaner (1996:18) as the systematic gathering and analysis of competitor information and general business trends in order to achieve the goals of the organisation.

Out of the above it is evident that competitive intelligence is the business process by which raw information on competitors are taken and through the process of analysis are transformed into usable and valuable intelligence about an organisations competitors.

Hill *et al.* (2001:208) is of the opinion that as the rate of competition and rivalry increase between companies, it will become more critical to analyse and fully understand the strategies of competitors. Therefore, competitive intelligence can provide a useful tool for companies, for the purpose of gaining insight, which will help creating a competitive advantage over competitors. In today's competitive landscape speed and time is critical elements in being successful. The implication is that the speed with which an organisation can initiate competitor strategies and respond to that may determine the success of organisations (Hitt *et al.*, 2001:208).

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The external environment that this study will concentrate on is the competitor environment. When analysing the competitor environment, competitive intelligence is used to assist companies in better understanding their competitor's future objectives, current strategy and capabilities in order to have a competitive advantage in the industry.

1.2 PROBLEM STATEMENT

In today's competitive and dynamic business environment organisations are dependant on having the correct information available to determine the impact of the forces from the external environment, for the purpose of this study the actions and strategies of competitors. The implication is that the organisation must fully understand with insight how their competitors may positively or negatively affect the success of their strategy in order to obtain a competitive advantage over its competitor's.

Information is the starting point to determine the impact and must be used in the decision making process. Although the quality of the information is important, the real value lies in what the organisation does with this information, in other words how the information is analysed and used in the decision making and strategy formulation process. Transforming raw information into usable intelligence is fast becoming a critical management tool.

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Organisations must therefore use techniques and tools in analysing competitor information to transform it into competitor intelligence. The problem is how organisations can most effectively apply the intelligence on their competitors in determining possible strategies of these competitors for the main purpose in developing strategies that are more competitive. Or to be aware of possible competitor actions that may result in a loss of market share or customers. In other words, how to analyse the competitor information in order to outline possible future strategic directions of an organisations competitors. The problem will be addressed by identifying tools and techniques that can be applied in successfully analysing competitive information.

1.3 OBJECTIVE OF THE STUDY

The primary objective of the study is to determine how a company can use competitive intelligence in order to stay competitive in the marketplace and evaluate the impact on the company strategies and competitiveness. In other words, what techniques/analytical tools are available for companies to use the information obtained out of the competitor intelligence cycle to formulate strategies that will result in a competitive advantage over its competitor's.

This process can be described as turning raw competitor data into usable and valuable competitor intelligence. The competitive intelligence life cycle exists out of four stages. Stage one comprises out of the needs identification exercise, stage two involves the gathering and sourcing of information, stage three is where the information obtained is analysed and stage four is where the intelligence is distributed in the organisation. Therefore, the broad goal of this study will be on what techniques and tools can be used in stage three of the life cycle in transforming information into intelligence, that can be used in gaining a competitive advantage.

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To read the overall goal of this study is to focus on the following objectives:

- To develop an understanding and insight into the elements and functions of the four phases in the competitive intelligence life cycle.
- To identify reliable sources for the gathering of the intelligence, the importance of online information will also be included in the discussion.
- To identify the techniques and tools that can be used in analysing the competitor information, in order to determine possible strategies of competitors.

1.4 RESEARCH METHODOLOGY

This study will consist out of secondary research in the form of a literature study of the subject matter. Therefore, no empirical research will be conducted to complete the short dissertation. The latest literature on the subject will be analysed and reviewed to reach the objectives of the study. The content will be investigated, compared and standpoints will be critically discussed.

During the study the primary focus will be on how to turn the raw information on competitors into usable and valuable intelligence that can add value in the strategic development and review phases. Books, journals, research papers, magazine articles and electronic information on the subject matter will be used in the study.

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1.5 SCOPE AND LIMITATIONS

As the main purpose of the study is to fully understand what techniques/analytical tools can be used in determining possible strategies of a company's competitors, the study will therefore, only concentrate on step three of the competitive intelligence cycle, namely the analysis of information obtained.

However, the other steps will briefly be discussed in the beginning of the study. The information management of data, setting up and structure of the competitive intelligence division needs analysis and distribution of information will be excluded from this study due to the length limitation of the study. The reader must not disregard the importance of the latter aspects, as they form a crucial part of the success of any competitive intelligence programme.

1.6 FRAMEWORK OF THE STUDY

The following is a proposed format of the study, and may change due to the critical assessment by the study leader. The particular framework was chosen in order to achieve the objectives of the study.

In Chapter 1 the background information on the subject, objectives, research methodology, limitations, framework of the study summary of findings, conclusion is discussed.

A literature study is presented in Chapter 2 in order to develop an understanding of the following elements:

- External environment and competitive intelligence.
- Definition of competitive intelligence.
- Importance of competitive intelligence due to intensity of competition, in other words what competitive intelligence mean for companies.
- Business functions of competitive intelligence.
- Ethical and legal considerations involved.
- Role of competitive intelligence in the strategic management process.

Chapter 3 will discuss the four stages in the competitive intelligence cycle in detail. The four stages consist out of: needs identification, collection of information, analysis and distribution of information. Each stage will be discussed in detail in order to provide a clear picture of the entire cycle.

Due to the fact that the main focus of the study will be on the analysis of the information, it is valuable to identify the sources of the information used in the analysis. This aspect as mentioned will be discussed in Chapter 4. The online competitive information will also be included in this chapter, due to the magnitude of information that can be found on the Internet etc.

Chapter 5 will contain the techniques/analytical tools in order to successfully analyse the information obtained from competitors in order to determine their strategies, and to valuate if it is a threat to the company. The following tools will be discussed:

- Competitor analysis
- Competitor's business relationships
- Customer segmentation analysis
- Financial ratio and statement analysis
- Industry analysis
- Invented competitors
- Macro environmental (STEEP) analysis
- Managerial profiling
- Scenario planning and analysis
- SWOT analysis

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Chapter 6 will provide the conclusion and summary of the research findings.

CHAPTER 2

LITERATURE SURVEY ON COMPETITIVE INTELLIGENCE (CI)

2.1 INTRODUCTION

The purpose of this part of this chapter is to provide a foundation or background with regard to the concept of competitive intelligence, its role in the strategic planning process and the business value of intelligence obtained. The chapter will therefore, draw a clear picture of what competitive intelligence is, the need thereof and its role in strategic planning. Competitive intelligence is defined in this chapter as the systematic programme for the gathering and analysing of information on competitor activities, as well as general business trends.

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2.2 THE COMPETITIVE BUSINESS ENVIRONMENT AND COMPETITIVE INTELLIGENCE

In today's competitive business environment, having the right information is not enough anymore. In the past businesses relied on information in the strategy or day-to-day decision making processes, therefore, it was believed that information is the key element. In other words, if businesses have the right information, they will make the correct decisions or to formulate the best strategies as argued by Kahaner (1996:15).

Information must only be viewed as the starting point of the decision making or strategy formulation process and not the end. Although the quality of the information is critical, what businesses do with it – how they analyse and apply the information – is much more critical and of importance. Kahaner (1996:15) believes that turning raw information into actionable intelligence is becoming the most critical management tool, therefore, businesses must realise that the information age is being replaced by the intelligence age.

Businesses must realise how to cope and remain competitive in the ever changing global business environment. Hough & Neuland (2001:3) argues that businesses must use knowledge to design and execute strategies that are successful in the marketplace. Competitive advantage is the result of knowledge management, meaning that it enables the creation and production of knowledge according to Maritz (2001:1).

On a more practical business level it can be described as the process of capturing, sharing and leveraging a business collective expertise. Businesses use knowledge in creating a competitive advantage over competitors according to Maritz (2001:4). Knowledge can also be applied to make sense of the complex, uncertain business world in the present and for future scenarios.

Hitt *et al.* (2001:20) claim that for the current and future competitive landscape, knowledge (information, intelligence and expertise) must be regarded as a critical organisational resource that can be used as a source of competitive advantage.

2.3 DEFINITIONS OF CONCEPTS

The leading concepts that are used and discussed in this study will be defined and discuss in order to gain a clear understanding of the definitions their meanings.

2.3.1 Competition

West (2001:5) provides a narrow explanation of competition, namely that of companies offering comparable products and services for the same target markets. The same view is expressed by Hitt *et al.* (2001:81), which describes competition as the companies against whom a business competes directly with.

2.3.2 Competitive advantage

Hitt *et al.* (2001:5) defines competitive advantage as an occurrence when a company implements a value creating strategy, and is for competitor companies too costly to imitate. The lifetime value of the competitive advantage depends on the speed with which competitors are able to duplicate the strategy. Fleisher & Bensoussan (2003:2) claim that competitive advantage can be determined by the distinct way a business is positioned in the market in order to obtain an advantage over its competitors, and is measured by the business's ability to generate and maintain sustained levels of profitability above the industry average.

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2.3.3 Competitive environment

The competitive environment is described by Bateman & Snell (1999:52) as the immediate environment, which surrounds a business, and consists out of competitors, customers and suppliers.

2.3.4 Competitive Intelligence

Pollard (1999:3) regard competitive intelligence as the output obtained from a legal and systematic process, which includes the gathering and analysing of information about current and potential competitors. The same viewpoint is expressed by Kahaner (1996:16) when viewing competitive intelligence as a systematic programme for the gathering and analysing of information competitor activities, as well as general business trends.

Hitt *et al* (2001:82) focuses more directly on what information must be taken into account, when defining competitor intelligence as the ethical and gathering of needed information and data about competitors objectives, strategies, assumptions and capabilities. Competitive intelligence can also be defined as a systematic process or cycle for collecting and analysing information about competitor activities, one's business environment and business trends in order to obtain success in terms of business goals (Fleisher & Bensoussan, 2003:6).

CBIA (2003:6) regard competitive intelligence as the process by which a company attempts to define and understand its industry, identify competitors, determine the strengths and weaknesses of the competitors identified in order to anticipate their moves and strategies by a process of collecting and analyse the information.

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For the purposes of this study it is necessary to produce a single well defined definition of competitive intelligence out of the above definitions. When referring to the term competitive intelligence in forthcoming chapters, the meaning and interpretation must be based on the following definition:

Competitive intelligence is a systematic process or cycle that uses ethical and legal means, actions or steps in the identification, collecting, analysing of information on competitors, the external business environment and business trends - in order to determine the impact on the strategies and goals of the business, in order to be aware of competitors objectives, strategies, assumptions and capabilities.

2.3.5 External environment

Bateman & Snell (1999:52) regard the external environment as the forces outside the boundaries of the business, and can be divided into three layers namely the general environment, industry forces and the competitors.

2.3.6 Information

Kahaner (1996:20) views information as being factual, and consists out of number, statistics, data about companies and people and claims that raw information has no value in the decision making process.

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2.3.7 Intelligence

Intelligence is regarded by Fleisher & Bensoussan (2003:6) as the value-added product resulting from the collection, evaluation, analysis, integration and interpretation of the available information and are used in the decision making process. Intelligence can also be defined as the body of evidence and the conclusions drawn from the information, after it was collected and analysed in order to provide potential value to decision makers (CBIA, 2003:2). Kahaner (1996:21) also views intelligence in the same way by defining intelligence as the collection of information pieces that have been filtered, distilled and analysed.

2.3.8 Strategic management process

The strategic management process is defined by Hitt *et al.* (2001:6) as the set of management commitments, decisions and actions required for a business to achieve strategic competitiveness. Strategic management can also be described as the set of decisions and actions that result in the formulation and implementation of plans with the purpose of achieving the objectives of the business (Pearce & Robinson, 1991:3). Bateman & Snell (1999:127) regard strategic planning as the set of procedures for making decisions about the long term goals and strategies of a company.

2.3.9 Strategy

Strategy is defined by Pearce & Robinson (1991:3) as the future orientated plans of businesses for interacting with the competitive environment to achieve specific goals. Bateman & Snell (1999:127) define strategy as the pattern or actions and resources allocated to in order to achieve the goals of the business.

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2.3.10 Industry

An industry can be defined as a group of companies producing/delivering similar products or services (CBIA, 2003:6). Hitt *et al.* (2001:68) defines an industry as a group of companies producing products that can be regarded as close substitutes.

2.4 THE NEED FOR COMPETITIVE INTELLIGENCE

The study has so far indicated and argued that companies operate and function in an uncertain and competitive market, the need to be aware of competitors and the affect that their actions, strategies and capabilities may have – positively or negatively – on a strategy or business goals of a business which operates in the same industry, as well as trends in the external business environment on the form of threats and opportunities.

The following points will show why companies need to have a formal competitive intelligence function in place, in order to be aware of competitor's capabilities, plans, tactics, developments and intentions, as well as the threats and opportunities arising from the external environment.

2.4.1 Increase in the pace, complexity and speed of business

Companies are required to respond more quickly in response to customer demands and needs, changes in the industry and due to the actions of competitors. The result is that decisions must be made faster in keeping up with the pace in the marketplace (Kahaner, 1996:28-29). Fleisher & Bensoussan (2003:8) argue that the increase in speed and complexity is caused by communication and information technology that is changing the marketplace, as we know it. The argument is that communication and information allows for the faster pace in transferring data and information. This allows companies to reduce the cycle time of introducing new services or products, in order to stay competitive. The key to success in keeping up with the increasing speed is through the efficient management and use of competitive intelligence (Corporate Executive Board, 2002:1).

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2.4.2 Knowledge economy and information overload

The global economy is characterised as a knowledge economy, due to the fact that the industrial economy is being replaced by the service economy. And the nature of services are more knowledge based than material based. The error made in the knowledge economy paradigm is that information is seen as knowledge.

As mentioned in the previous point information is distributed and available in larger quantities all the time due to improvements in communication channels. The result is that information has become meaningless and in over supply (Fleisher & Bensoussan, 2003:7). Kahaner (1996:29) argues that it is worse than having too much information than having too little information. In the past information meant power, but in future the power will lie in how companies use and apply that information. Fleisher & Bensoussan (2003:7) argues that companies that have a competitive advantage will be able to create order out of chaos and complexity, while obtaining leverage out of knowledge and transferring it.

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2.4.3 Increased level of competition

One result of globalisation is that the level of competition is increasing, this is due to the fact that in the past a company could sustain a high position in the market by simply being in the right place at the right time. These companies were protected by geographical, physical and socio-political barriers that served to keep competitors out of specific markets and these barriers are starting to disappear in the global economy (Fleisher & Bensoussan, 2003:7).

The global marketplace is a product of the process of globalisation, the consequence being that companies no longer think in terms of political borders when it comes to competition. The threat is that competition can come from any country in the world (Kahaner, 1996:29-30). Businesses must realise that these new competitors do not necessarily compete in the same way as local competitors do.

As a result this new form of competition may not even to appear to be logical, insightful or even ethical, due to the resources and past experiences of the foreign competition (Fleisher & Bensoussan, 2003:7). The challenge for competitive intelligence is to identify new and emerging global competitors.

2.4.4 Aggressiveness of existing competitors

Corporate Executive Board (2002:1) presents the argument that the growing marketplace coupled with a maturing market – especially in the industrialised countries or in certain industries – has led to an increase in competition between local companies. These companies are trying to increase their market share as the expense of their competitors, by searching and capitalising on any weaknesses of the competition. Therefore, competitive intelligence can be used in anticipating actions from existing competitors, in order to counteract the new developments.

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2.4.5 Political and economic changes

Due to the constant changes in the political and economic segments, it has become necessary to constantly monitor new developments in order to assess the threats or opportunities. Examples provided by Corporate Executive Board (2002:1) supports the argument, for example, the deregulation of industries such as telecommunications and airlines have introduced new competitors in the market. The effects on businesses worldwide from financial crises in countries such as Argentina and Russia are also examples to support the argument.

2.4.6 Rapid technological changes

Corporate Executive Board (2002:1) argues that new technological developments both poses opportunities and threats for companies. Companies must therefore be able to assess new developments as to determine if the opportunity can be used to gain a competitive advantage or to develop and action plan that will limit the impact of a threat (Kahaner, 1996:31).

2.5 THE BUSINESS FUNCTIONS AND VALUE OF COMPETITIVE INTELLIGENCE

In the previous section it was argued that the need to monitor and analyse competitors and the external business environment is critical in the success of any strategy or business goal. In this section the business value of competitive intelligence must be understood, namely why competitive intelligence is needed.

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The underlying principle is having knowledge about your competitors, for example on the following aspects:

- Who is the competition of the business, now and in the future?
- What are the competitor's strategies, objectives and goals?
- What are their strengths and weaknesses?

The following section will provide some points for consideration on the business functions and value that competitive intelligence can provide in the monitoring and analysing of competitors and the external business environment.

2.5.1 Anticipate changes in the marketplace

This will ensure that companies are not surprised by events in the industry or marketplace. Therefore companies will be able to adapt quicker and easier to changes by changing their strategy (Kahaner, 1996:23).

2.5.2 Anticipate actions of competitors

As mentioned previously, companies that are able to identify and assess actions from competitors before they take place, can formulate and implement strategies that will limit the impact of their competitor actions, thereby obtaining a competitive advantage. Pollard (1999:7) claims that the essential key for competitive advantage is having knowledge about competitor's weaknesses, strengths, capabilities and strategic objectives.

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2.5.3 Discover new or potential competitors

When monitoring and assessing trends in the external and competitor environments, companies will be able to discover signs that a new competitor is in the process of entering a specific market or industry (Kahaner, 1996:24).

2.5.4 Identify political, legislative or regulatory changes that can affect businesses

Businesses can be affected by legislative and regulatory restrictions, so it is imperative that companies must continuously assess and monitor the external legislative and political environments in order to anticipate any new laws or regulations that may pose a threat to the success of strategies being pursued (Kahaner, 1996:26).

To conclude this discussion on the business value of competitive intelligence, it has real business value when a company is able to:

- Understand the external environment.
- Understand the forces in the industry.
- Can forecast opportunities and threats.
- Understand their competitor's strategies and business goals.
- Use the weaknesses of the competitors to their advantage.

2.6 THE ETHICAL AND LEGAL CONSIDERATIONS IN TERMS OF COMPETITIVE INTELLIGENCE

Competitive intelligence is subject to ethical assessment and legal constraints, due to the fact that in the past there have been situations of unethical or illegal methods used in competitive intelligence according to West (2001:160). This resulted in competitive intelligence being mistaken for industrial espionage. The latter makes use of illegal and unethical methods to access information, including theft, electronic surveillance and bribery (CBIA, 2003:12). Competitive intelligence uses both ethical and legal methods in obtaining information, due to the fact that there is no need for industrial espionage since almost all the required information and data required for analysis and interpretation can be collected in a legal and ethical manner (CBIA, 2003:12).

Competitive intelligence practitioners have the responsibility to adhere to legislation that governs criminal law, copyright law, data protection legislation as well as industry and corporate code of ethics (West, 2001:161).

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Ethics is regarded by Bateman & Snell (1999:154) as the system of rules governing the ordering of values, and defines business ethics as the moral principles and standards that guide behaviour in the world of business. Hitt *et al.* (2001:82) recommends that companies should follow generally accepted ethical practices in the gathering of competitor information. Kahaner (1996:242) poses the question that if a collection method used is legal, can it also be regarded as ethical? Due to the fact that legislation clearly stipulates what is legal and what actions are regarded as illegal. Therefore the competitive intelligence practitioner can clearly determine, with the guidance of the company legal department, if the collection methods being used are legal. The questions between the legal and ethical methods are difficult to answer due to the fact that the line between legal and ethical practices can be difficult to determine (Hitt *et al.*, 2001:83-85).

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Fuld (1995:32) claim that personal ethics vary widely due to the dynamic nature of individuals, and may often involve individual rather than group decisions. Kahaner (1996:243) is of the opinion that, as more information gathering takes place, the role of ethics will become more critical, therefore companies should establish ethical guidelines for the gathering of competitor information. Fuld (1995:33) recommends that the ethical guidelines are only useful when they are read and lived out, therefore, it must not be vague and difficult to remember.

The Society of Competitive Intelligence Professionals (SCIP) has established a code of ethics that members must adhere to. This can serve as a guideline for companies in drafting an ethical code for competitive intelligence:

- to continually strive to increase the recognition and respect of the profession;
- to comply with all applicable laws, domestic and international;

- to accurately disclose all relevant information, including one's identity and organisation, prior to all interviews;
- to fully respect all requests for confidentiality of information;
- to avoid conflicts of interest in fulfilling one's duties;
- to provide honest and realistic recommendations and conclusions in the execution of one's duties;
- to promote this code of ethics within one's company, with third party contractors and within the entire profession; and
- to faithfully adhere to and abide by one's company policies and objectives and guidelines (CBIA, 2003:39).

Each company must decide on legal and ethical methods that are to be used for competitive intelligence taking into account the culture of the company and the impact thereof on the corporate image of the company.

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2.7 THE ROLE OF COMPETITIVE INTELLIGENCE IN THE STRATEGIC MANAGEMENT PROCESS

Fleisher & Bensoussan (2003:6) is of the opinion that strategy must be seen as a dynamic process, which is caused by technology changes, markets change and the rules of competition and competitors are not static. Therefore, business that want to obtain a competitive advantage over competitors must formulate and implement strategies that are original, this translates into being different from the competitors in ways that customers will value, or in other words the company must establish a difference of value to customers that can be preserved over time. In the competitive business world the challenge for companies is to pursue distinctive competencies – resources and capabilities – that are unmatched by the competitors (Fleisher & Bensoussan, 2003:6-8).

2.7.1 The link between the strategic management process and competitive intelligence

The purpose of the strategic management process is to assist decision makers to understand all the elements involved in order to create a competitive strategy. This implies a fit or congruence between the business and its external environment. The strategic plan's purpose is to guide a business in a particular direction and to help navigate the business through the journey. On the other hand, competitive intelligence identifies and highlights potential threats and opportunities on the horizon in order for the strategy to be in fit with the external environment.

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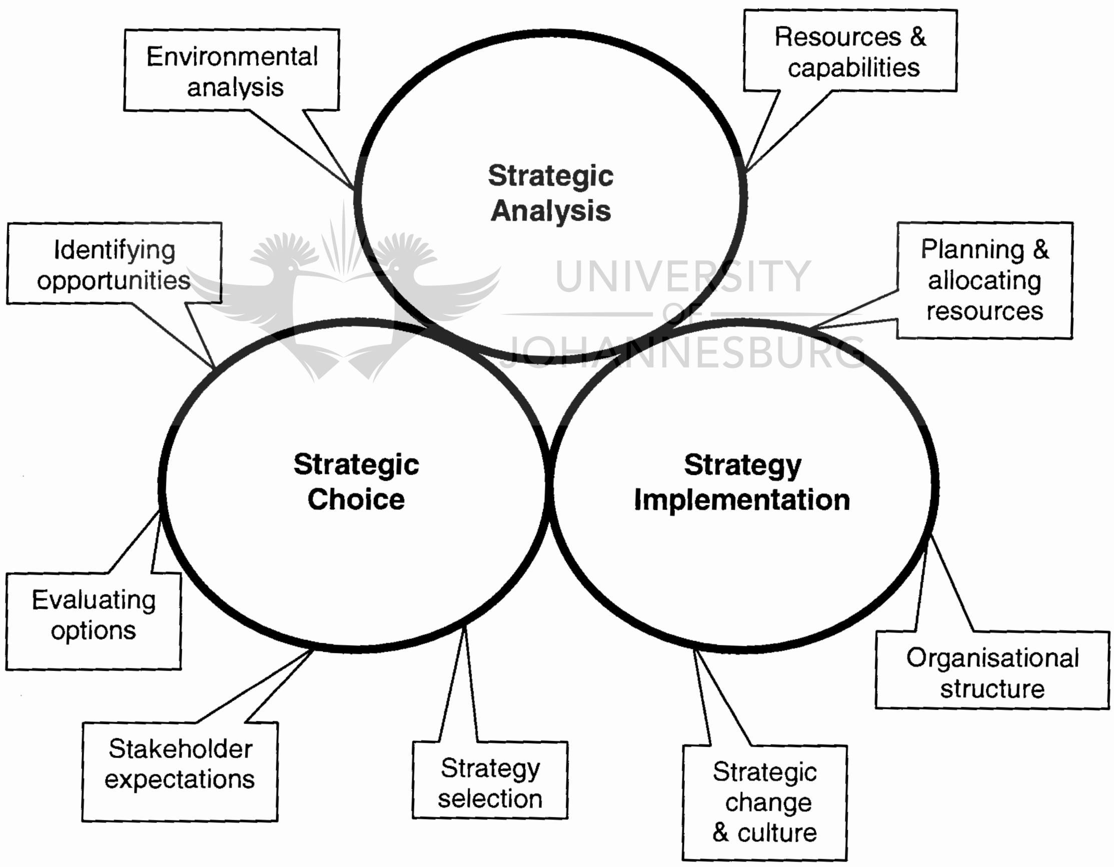
According to Fleisher & Bensoussan (2003:3) the strategic plan must therefore, take into account the business goals, values, resources, capabilities, structures and systems in order to obtain a fit or congruence with factors in the external environment (e.g. competitors, customers, industry, public, government, suppliers, economy, socio-economic and technological factors).

Fleisher & Bensoussan (2003:5) claim that intelligence can mean the difference between the success or failure of a strategy. Competitive intelligence can assist the business in making more effective strategic decisions, resulting in the business having a competitive advantage. Due to the fact that competitive intelligence evaluate the possible potential threats that exist in the external environment that may have an impact on the success of the strategic direction and competitive advantage of the business.

In order to explain the role of competitive advantage in the strategic management process effectively, it is necessary to place the competitive intelligence process in the context of the strategy process. For this purpose a diagram will be used as illustration followed by a discussion.

Figure 2.1: The strategic management process



Source: CBIA (Introduction and Overview Course Presentation, 2003).

The above diagram serves as a simplistic outline of a typical strategic process, whereby a business will perform an internal and external analysis, followed by identifying possible options in the market and selecting an option and developing a strategy, by which the business will participate and compete in the marketplace. This is followed by the actual implementation of the chosen strategy in the market.

2.7.2 Competitive intelligence in the strategic analysis phase

The aim of strategic analysis is to answer four questions, namely:

- How do we know if the business is successful? This question can be answered by having measurable goals in place.
- How are the current strategies of the business contributing to the success? This question can be answered by giving reasons why the business are successful.
- How sustainable is the advantage of the business? The question can be answered by indicating if the competitors are able to reproduce the business model/strategy.
- What should the business be doing to be more successful or sustain the success? This question can be answered by developing original strategies in order to gain a competitive advantage over the competitors.

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2.7.3 Competitive intelligence in the strategic choice phase

During the phase when a strategy is selected – strategic choice – the purpose of competitive intelligence is to:

- anticipate competitive reaction to the newly formulated strategy; and
- identify actions to deal with the competitive reactions.

The strategic process must be able to anticipate potential changes with regard to competitors and the industry and plan accordingly. Weiss (1999:1) argues that strategic decision making essentially involves anticipating future developments and planning accordingly. Strategic decision making should therefore only concentrate on the long term – two or more years ahead. Anything less is regarded by Weiss (1999:1) as a pure tactical decision.

To avoid tactical decisions, businesses must be able to look at the total industry and beyond, rather than focussing on individual competitors. Weiss (1999:5) argues that when businesses view the wider picture they will gain the real intelligence – the strategic wisdom – that allows the business to formulate strategies for the future. Ettorre (1995:16-17) claims that competitive intelligence is necessary in order to drive strategic planning dialogue in the business.

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2.8 CONCLUSION

Out of the above discussion it is evident that competitive intelligence assist businesses in better understanding their industry and competitors in order to formulate and implement strategies that will result in a competitive advantage. The definitions and the meanings of key words used in the study has also been established, as well as the need and business value of competitive intelligence in the current and future competitive business environment, taking into account the legal and ethical issues involved in competitive intelligence. It was argued that the company has the responsibility in setting both legal and ethical guidelines for the collection of competitor information. The role of competitive intelligence in the strategic management process has also been established, in order to illustrate the importance of competitive intelligence in the strategy planning process.

CHAPTER 3

THE COMPETITIVE INTELLIGENCE CYCLE

3.1 INTRODUCTION

Competitive intelligence was defined in the previous chapter as a systematic process or cycle that uses ethical and legal means, actions or steps in the identification, collecting, analysing of information on competitors, the external business environment and business trends. This chapter will concentrate on the systematic process or cycle aspects of competitive intelligence. The cycle that will be discussed in this chapter must be viewed as the primary objective of competitive intelligence, due to the fact that in the competitive intelligence cycle, raw information is transformed into actionable intelligence.

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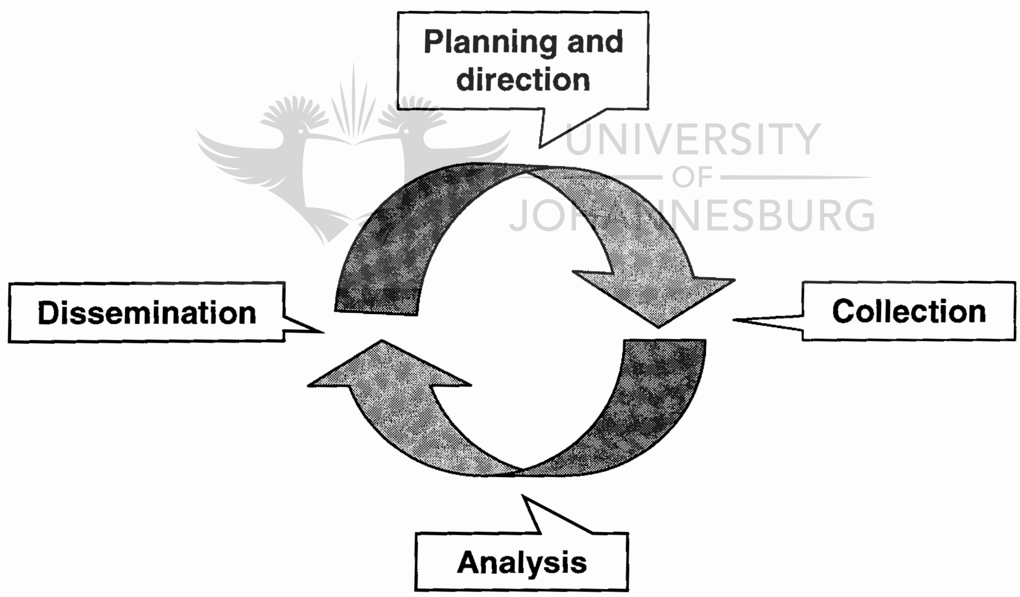
The four phases or cycles of the competitive intelligence cycle will be discussed in order to understand the elements and functions involved in each cycle. Due to the fact that the collection and information and the analysis of the information will be discussed in detail in forthcoming chapters – Chapter 4 and Chapter 5 respectively – only an introductory discussion will be presented for these two phases in this chapter. The two remaining phases – planning & direction and dissemination – will be discussed in detail in this chapter.

3.2 THE FOUR PHASES IN THE COMPETITIVE INTELLIGENCE CYCLE

The competitive intelligence cycle consists of four phases, which are followed in order to produce actionable intelligence. The discussions that will follow in the forthcoming chapters will illustrate how the intelligence – output – is produced from the raw information and data – input. In order to anticipate changes in the business external environment and competitor strategies, for the business to achieve the set goals and the success of strategies followed in order to gaining a competitive advantage.

The following diagram provides an outline of the competitive intelligence cycle, followed by an introductory discussion of each phase:

Figure 3.1: The competitive intelligence cycle



Source: Kahaner (1996:44).

3.2.1 Phase one: Planning and direction

The first step in the cycle is to determine the applicable business issues regarding the intelligence required, this can also be viewed as a needs assessment. It must be determined what the key decision makers require and why they need it, in other words, what decisions will be made from the intelligence presented? Due to the fact that it is argued by Corporate Executive Board (2002:3) that competitive intelligence can be used as input for strategic planning, research and development, entry strategies, acquisitions, market timing and technology assessment. Therefore it is critical to firstly identify the key users – decision makers – and their needs before one can proceed to the collection of information.

CBIA (2003:13) suggests that the following questions can be used for this purpose. What type of intelligence is required? For whom is the intelligence? How will the decision makers use the intelligence? When do the decision makers require the intelligence?

3.2.2 Phase two: Collection

The next step is to identify the most valuable sources that are to be used in the collection of information and data, in order to produce the required intelligence (Corporate Executive Board, 2002:6). The collection phase also involves the processing of information and the storing thereof for the retrieval in order for consultation at a later stage. Collection is the gathering of raw information that is used in producing usable and actionable intelligence (Kahaner, 1996:44).

Competitive Intelligence uses mainly open sources, which can be defined as publicly available information, as well as other unclassified information – also known as grey literature - that has limited public distribution or access. Publicly available information is classified as information that any member of the public could lawfully obtain by request or observation. Information can also be divided can be divided into three categories namely, internal sources, primary sources and secondary sources (CBIA, 2003:19). The collection of information and sources thereof will be presented and discussed in detail in Chapter 4.

3.2.3 Phase three: Analysis

The key in providing actionable intelligence lies in the analysis and interpretation of the gathered information. The analysis phase is considered by Kahaner (1996:44) as the most difficult aspect of competitive intelligence, due to the skills required to make sense of all the information, weight the information, identify patterns and develop scenarios based on the intelligence. Therefore, businesses must make use of in depth analytical frameworks (Corporate Executive Board, 2002:8).

CBIA (2003:24) defines intelligence analysis as the critical examination of information to distinguish parts and determine various relationships. Another definition is also provided, namely that it must be regarded as a process in the intelligence cycle in which, the information gathered must be subjected to systematic examination in order to identify significant facts and derive conclusions from the intelligence (CBIA, 2003:24).

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According to research conducted by Corporate Executive Board (2002:8) the analysis of competitive intelligence uses analytical tools from various other disciplines including, strategy analysis, market analysis, economics, finance, statistics and psychology. Effective analysis will be able to support the business leaders in their decision making process. Specific analytical tool and techniques will be discussed in Chapter 5 of the study.

3.2.4 Phase four: Dissemination

The last phase in the cycle involves the distribution of the intelligence to those who requested the competitive intelligence. The success of the intelligence dissemination is dependant on two factors, the presentation of the intelligence and the follow up process in order to ensure that the competitive intelligence presented is correctly understood and interpreted (Corporate Executive Board, 2002:9). According to Kahaner (1996:45) dissemination also involves recommendations being given, by focusing on the intelligence that matters most.

3.3 PHASE ONE: PLANNING AND DIRECTION

Chapter three has so far concluded that the competitive intelligence consists of four distinct cycles or phases. The following section will be devoted to a discussion and explanation of the first phases namely planning and direction. Planning and direction can be defined in simplistic terms as the actions taken to define the business issues and to determine what kind of information is needed. In other words, what should the competitive intelligence accomplish?

3.3.1 Determining the users

Before a business can start the gathering of competitor information, it must first be established who will use the intelligence. Pollard (1999:61) proposes that the decision makers that requires the intelligence be divided into three main segments:

- Executive management
- Middle management
- Tactical management

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This is required due to the fact each segment will have distinct competitive intelligence requirements. After the above segmentation, Pollard (1999:61) also argues that these decision makers should also be graded further in order to determine their relative importance:

- Hot decision makers – will receive first priority
- Warm decision makers – will receive second priority
- Cold decision makers – will receive third priority

This will make it possible to determine the relative priority of intelligence requests, resulting in a more effective competitive intelligence process.

3.3.2 Determining the user's needs

According to Kahaner (1996:49) intelligence has many uses including strategic planning, research and development, entry strategies, acquisitions and technology assessment. It is therefore imperative to determine what the decision makers need to know and why they require the intelligence. This aspect must be regarded as a critical success factor due to the fact that the competitive intelligence cycle must be able to determine the meaning, relevance and importance of pieces of information that will be sourced and collected (Pollard, 1999:62).

In order to be able to understand and deliver actionable intelligence, the mission of the competitive intelligence program should also be established. CBIA (2003:17) claims that missions can be informational, offensive and defensive in nature. The purpose of informational missions is to provide a general understanding of the industry and its competitors in which a specific business operates. Offensive missions focuses on the vulnerabilities and/or assess the impact of strategic actions on these competitors. The purpose of the defensive missions is to identify a specific competitor's potential action or strategy that could compromise the business market position or competitive advantage (CBIA, 2003:17).

Pollard (1999:62-63) identifies two main types of competitor intelligence: radar/awareness intelligence and target intelligence. Radar/awareness intelligence must be regarded as the regular collection of information in order to determine what trends and changes are taking place in the industry as a whole and within competitors, in order to identify the implication of these changes for the business, and to decide at the end whether action should be taken to limit the impact of these changes (Pollard, 1999:62).

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In contrast target intelligence is viewed by Pollard (1999:62-64) as specific intelligence that is used to support the formulation and implementation of specific business objectives or strategies. In other words, the use of target intelligence is to indicate what decision makers must know in order to implement the chosen business objectives or strategies. Target intelligence can therefore be used for either offensive missions or defensive missions, whereas radar/awareness intelligence can be applied for informational missions (Pollard, 1999:62).

As mentioned earlier, the purpose of this section is to determine what the needs of the users are, therefore it was necessary to discuss the different types of competitive missions and types of intelligence as they directly influence the needs of the users.

The needs for radar/awareness is predominantly determined by the external environment of the business, therefore the needs will include the identification of opportunities and threats that exist in the external business environment from which the business company can benefit, or against which the business must defend itself (Pollard, 1999:63).

For tactical intelligence, the business objectives drives the business strategies, which in turn will be used in identifying the intelligence requirements and needs. Therefore, it will be clear what type of information must be collected and sourced in order to produce actionable intelligence (Pollard, 1999:63).

3.3.3 Defining intelligence needs through Key Intelligence Topics (KITs)

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In order to define the competitive intelligence needs and requirements the corporate world has adapted various government intelligence models, such as the National Intelligence Topics (NIT) that is used in the identification of national level intelligence requirements. Out of the various government intelligence models the Key Intelligence Topics (KIT) process has been applied in the corporate in order to identify competitive intelligence needs and requirements.

The basic foundation of the KITs process is an interactive dialogue session with the users or decision makers that require the intelligence. Therefore KITs can be applied in defining the intelligence needs and requirements (Herring, 2001:240). KITs can also be used to determine the level of both internal and external sources that best address the intelligence needs that are identified (CBIA, 2002:4).

KITs play a critical role in phase one – planning and direction – of the competitive intelligence cycle, due to the fact that the outcome of the interviews provide the focus and prioritisation that is a critical success factor in producing actionable intelligence. The main purpose of KITs must be viewed as an analytical understanding of the users or decision maker's intelligence needs as argued by Herring (2001:244).

3.3.3.1 The three functional categories of KITs

KITs can be assigned to one of three functional categories, which will be discussed separately in the following three sections.

3.3.3.1.1 Strategic decisions and actions

Decision and action KITs include requirements from strategic decisions, action plans for new product development and implementation as well as inputs required for the formulation of strategic plans and new competitor strategies. Therefore these KITs can be used to identify intelligence that is needed for business decisions and actions (Herring, 2001:245).

Intelligence for this category that is required may include the following:

- Identify and assess the changes in the competitive environment.
- Assess the role of competitors in achieving the business objectives.
- What plans must be implemented in maintaining the current competitive advantage of the business (Herring, 2001:246).

3.3.3.1.2 Early-warning topics

Early-warning topics typically highlight activities and subjects by which management does not want to be surprised. These topics consist out of external events that may have an impact on the business performance, that are caused by competitor initiatives, technological advances and governmental actions (CBIA, 2002:4). This category of KITs is viewed by Herring (2001:247) as the identification of both threats and opportunities, usually obtained through the hunches and fears that are expressed by the decision makers.

These KITs play a critical role in the discovering of early-warning signs when the fears and concerns are realised, resulting in contingency plans being initiated in order to limit the impact of the threats. The positive point is that opportunities that are identified at an early stage can be met with appropriate business actions (Herring, 2001:247).

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Intelligence for this category that is required may include the following:

- Technological developments that may affect areas in the business and that may be used by competitors.
- Companies and/or combinations of companies, considering possible entry into the market.
- Changes in international political, social, economic or regulatory situations that could affect the competitiveness of the business.
- Governmental changes that could have an impact on current regulatory regimes.
- Intelligence on alliances and acquisitions among the competitors and suppliers (Herring, 2001:247).

3.3.3.1.3 Description of key players

Descriptions of key players are identified due to the need of a better understanding of all the players – competitors, suppliers, regulators and potential partners - in a market or industry. Herring (2001:248) claims that these KITs must capture the mental model that each decision maker has of a player. The specific questions that decision makers have regarding players must therefore be identified (Herring, 2001:248).

Intelligence for this category that is required may include the following:

- A profile of the major competitors, including their strategic plans, competitive strategies, financial and market performance.
- Identify new and emerging competitors, including those coming from entirely different industries and businesses.
- Intelligence on new customers, their needs and future interests, in other words what are they and how are the competitors trying to satisfy them.
- Identify and assess new industry and market players.
- Data in terms of market share and growth for business and the competitors (Herring, 2001:248).

3.3.3.2 Using the KIT process

Herring (2001:249) identified two basic methods of identifying the intelligence requirements namely, through responsive and proactive modes. These two methods will be discussed below.

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3.3.3.2.1 Responsive mode

The overall objective or way this mode functions is to anticipate the overall needs and requirements of the users or decision makers that require the intelligence. This is done by receiving the intelligence requests directly from the users. The author also identifies criteria that can be used to reject a request by a user. Firstly, only true intelligence requests should be handled, meaning that the requests that can be best handled by other divisions should be redirected to those divisions. The second criteria used are whether the request is for intelligence or basic information. In the case of basic information the users request should be rejected with receiving advice on where to find the required information (Herring, 2001:250).

3.3.3.2.2 Proactive mode

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The second method that can be used in the identification of users requirements involves the competitive intelligence unit in the business to take the initiative and interview the users or decision makers in order to facilitate the identification of needs or requirements. This method allows for the efficient planning and direction of the intelligence operations and involves management in the intelligence process (Herring, 2001:250).

3.4 PHASE FOUR: DISSEMINATION

As mentioned previously, phase two involving information collection and phase three involving the analysis of information will be discussed in chapters 4 and 5 respectively. After the analysis of information collected, intelligence is obtained that must be communicated to the decision makers that requested the intelligence through the needs assessment. Kahaner (1996:133) regards the dissemination of the intelligence as the process of presenting logical arguments based on the analysis of the raw information collected.

3.4.1 Effectively communicating competitive intelligence

According to Pollard (1999:184) the intelligence must be communicated effectively to the relevant decision makers. Communicating intelligence effectively, involves consideration of two factors namely, the message communicated and how the decision maker prefers the intelligence to be received or presented in terms of the channel and form. Corporate Executive Board (2002:9) argues that the competitive intelligence must be presented in an attractive and easy-to-use format, in other words it must be presented in such a way that decision makers are able to act on the intelligence immediately.

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Kahaner (1996:135) argues that the form in which the intelligence are presented will have a major impact on the users or decision makers. It is therefore important to understand the preference of the target audience in terms of how human beings take in information, in terms of visually, aurally and kinaesthetically (by sense or feeling).

3.4.1.1 Effective channels of communication

The channels described by Pollard (1999:184) include presentations to a third party, personal face-to-face meetings or different electronic media channels (e-mail and intranet, video links). West (2001:171) identifies the following additional distribution systems namely, knowledge management systems, tailored competitive intelligence systems, and specific meetings or forums dedicated to the presentation and discussion of competitive intelligence.

The author (Pollard, 1999:185) regards personal oral delivery of results to the decision makers and customised reports – hard copy or electronic – based on clearly constructed templates as the best two methods of communicating competitive intelligence to the pre-defined users.

3.4.1.2 Effective forms of communication

Pollard (1999:185) provides the following examples in which the intelligence may be communicated:

- Words or bullet points
- Numbers (e.g. percentages)
- Tables, graphs or benchmarks
- Matrices (e.g. SWOT matrix)
- Graphics
- Pyramid chart (e.g. for financial ratios)
- General charts

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3.4.1.3 Effective formats of communication

Corporate Executive Board (2002:9) has identified formats in which competitive intelligence can be presented to the users/decision makers:

- Alerts: These can be distributed regularly or as needed when an urgent piece of intelligence is identified, typically by e-mail.

- Monthly newsletters: The monthly newsletter can contain intelligence for executive and middle management, for the purpose of keeping them informed of trends in the industry and competitive environments.
- Trend reports: The trend reports are typically compiled and distributed on a quarterly basis focusing on specific trends as identified in the monthly newsletters and researched or analysed in more depth.
- Issue briefs: These briefs can be created on an as needed basis to cover specific topics of imminent interest (Corporate Executive Board, 2002:9).

3.4.2 Criteria for presenting the intelligence

Kahaner (1996:134-136) identifies and claims that the intelligence presented to the users or decision makers must be measured against the following four criteria for measuring the success of the dissemination of intelligence.

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3.4.2.1 The analysis must be responsive to the needs of the users or decision makers

The first criteria stipulates that the intelligence assessment must be able to answer the questions provided by the users or decision makers in a succinct manner, the implication being that the written report containing the recommendations must be short and to the point (Kahaner, 1996:134).

3.4.2.2 The analysis must be focused

The presentation must contain detailed scenarios that are not general, therefore the author argues that instead of providing a few scenarios with equal possibilities to occur, a decision must be made of the most likely choice and it must be defended and motivated. When too general scenarios are presented they are of no use in the decision making process (Kahaner, 1996:134).

3.4.2.3 The analysis must be timely

This is only applicable when a competitive intelligence project is taking a few months to complete, before the intelligence is submitted it must be ensured that only the latest available information is included. This can be accomplished by using matrices as part of the analysis process that allows new numbers to be updated when coming available (Kahaner, 1996:134).

3.4.2.4 The analysis must be trusted on a high level

Executive managers may at first not completely trust the results of the competitive intelligence cycle, especially if it is being completed for the first time to be used in the formal decision making process of the business. Therefore it is critical to ensure that the executive management observe the value that the intelligence provide in the decision making process. This, however, takes time and the author claims that the individuals responsible for presenting intelligence must actually sell their ideas and findings to the users or decision makers (Kahaner, 1996:135).

3.4.3 Back to the beginning

It must be noted that due to the fact the competitive intelligence process is viewed and practically applied as a cycle, it does not have an end. The implication is that presenting the intelligence together with the findings and recommendations takes one back to the planning and direction – phase one – of the cycle. The presentation will therefore, be followed with new needs and requirements being identified (Kahaner, 1996:136).

3.5 CONCLUSION

Chapter 3 has indicated that the intelligence cycle consists out of four distinct cycles. A discussion followed describing each cycle and its functions in producing actionable intelligence. Therefore, phase two – collection of information – and phase three, will be discussed in separately in chapter 4 and chapter 5 respectively.

During phase one, which involves the planning and direction, a critical success factor was identified, in terms of establishing and meeting the users needs or requirements. This is regarded as a critical step in the competitive intelligence cycle. It has been argued that the outcome of KITs interviews provides the focus needed to produce actionable intelligence that will be used by the users and decision makers who requested the intelligence.

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It is has also been established that the dissemination of the intelligence plays a critical role in the acceptance and if the intelligence will be used as input in the decision making process. The argument is that the channel, form and format of how the intelligence is communicated must be critically selected and adapted according the target users or decision makers – who requested the intelligence – and the type of intelligence produced.

Although the most critical point is that the intelligence needs to be accessed by all individuals involved in the formulation of strategy, and other key areas such as marketing, product managers and corporate and public affairs. The intelligence must be presented in such a way with the relevant interpretations and recommendations in order for the intelligence to be of value in the decision making process. The only true measure available to assess the success of any competitive intelligence is whether the end user actually used the intelligence in the decision making process.

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CHAPTER 4

INFORMATION SOURCES AND COLLECTION METHODS

4.1 INTRODUCTION

This chapter will discuss phase two – collection – of the competitive intelligence cycle. The study has established previously that the competitive intelligence cycle consists of four distinct phases, each with its own set of unique functions and activities, which contribute to the production of actionable intelligence. After the needs and requirements of the users have been identified – phase one – the next phase in the cycle is to identify and collect the applicable data and information – phase two – that will be used in the analysis phase in order to obtain intelligence.

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As discussed in chapter two, information is in oversupply and has become meaningless, due to the paradox that too much information is available. Aldrich (2003:98) labels this phenomenon information overload, due to the realisation when information is gathered that access to information is easier, partly due to the open source intelligence. This implies that the filtration exercise or analysis phase plays an even greater role in the production of intelligence (Aldrich, 2003:100).

For companies to be successful in the collecting of information, the only requirement is to isolate the vital information (Lorge, 1998:76). It is claimed by Viviers *et al.* (2002:28) that 25 percent of the time spent on a typical competitive intelligence project will be spent on the collection of information.

4.2 INFORMATION SOURCES

The collection phase involves the use of public sources, too, in order to extract information and raw data on competitors and the external environment that will be analysed in phase three in order to transform the information into intelligence that is able to support business decisions (McGonagle & Vella, 2002:36). It is first necessary to establish what "public" means for the purposes of this study. In terms of the collection of information for competitive intelligence, "public" is defined as all information that can legally and ethically be identified and obtained and retrieved (McGonagle & Vella, 2002:36).

According to Naudé (2002:39) the code of the Society of Competitive Intelligence Professionals (SCIP) prohibits the use of underhand methods to collect information on competitors. The same view is expressed by Kahaner (2000:97), namely that most information required for competitive intelligence can be found from sources that are regarded as open and public, taking into account that the information is gathered legally and ethically.

Sources can be categorised in three distinct categories: internal sources, primary sources and secondary sources. Internal sources consist of information gathered from within the business; primary sources are those that can be obtained directly and secondary sources are regarded as public information (Corporate Executive Board, 2002:6). In order to simplify the different categories of sources, a table has been included.

Table 4.1: Information and data sources

Internal Sources	Primary Sources	Secondary sources
• Employees of the business that is in contact with competitors, consumers, regulators and the public • Frontline employees • Sales and marketing employees • Technical support employees	• Meetings, conferences and seminars hosted by industry groups • Trade exhibitions • Patent information • CEO speeches and company media releases • Annual reports & other company publications • JSE publications • Government publications • Television & radio interviews • Company financial reports • Personal observations	• Trade association publications • Analysts (Financial, Market & Industry) • Case studies • Corporate directories • Employment advertisements • Financial analyst reports • Information databases • Newspapers • Electronic news clipping services • Books, magazines and journals • Market research reports

Sources: Corporate Executive Board (2002:6) & Kahaner (1996:53-55).

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Kahaner (1996:53) distinguishes between primary and secondary sources by noting that primary sources must be viewed as unadulterated facts obtained directly from the source, meaning that information obtained from primary sources have not been changed, altered or tainted by personal opinion or interpretation. Primary sources must therefore be regarded as the absolute truth. By implication, secondary sources consist of altered information. Secondary sources have been selected from larger information sources or altered by opinion and interpretation (Kahaner, 1996:54-55).

According to Kahaner (1996:54-55) secondary sources can also be valuable because of the insightful opinions that are obtained from journalists and analysts who might have viewed the entire industry or observed trends that are missed when collecting primary sources and might have had access to confidential sources within the industry. A rule that is advised when collecting secondary sources, is to validate the information against the primary source (Kahaner, 1996:56).

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4.2.1 Internal sources

Bartram (2000:45) claims that around 70 percent of information required can be found in the internal sources. Silver (2003:3) holds the same view regarding the wealth of information that can be found internally in a business regarding the industry and competitors.

According to McGonagle & Vella (2002:38), up to 90 percent of information needed for competitive intelligence are available from public sources or can be legally, ethically and systematically obtained from public data. This argument is taken further by claiming that a large portion of the public information have already been sourced and can be found internally in the business. The statement is also made that few businesses have developed effective ways of accessing the internal data, supporting the above arguments (McGonagle & Vella, 2002:38).

Due to the inability to access the required data and information from within the business, the focus of information collection becomes external. McGonagle & Vella (2002:39-40) identifies several causes for this problem, but once identified, a solution can be found and implemented. Firstly, most internal knowledge/data management systems are quantitative in focus, while competitive intelligence as a discipline concentrates mostly on the qualitative aspect of information. The second cause is that data mostly provide the past, and that management systems do not always identify the source, therefore access to the individuals who provided the information is important, so that a person-to-person discussion can be held with them, as identified by Silver (2003:2).

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The third cause is that knowledge/data management systems mostly capture data only of the business itself, a possible solution is that information and data obtained from within the supply chain of the business can also be captured on the knowledge/data management system (McGonagle & Vella, 2002:40).

4.2.1.1 Successful collection of internal sources

For successful collection of internal information, available internally in the business, the following steps and processes are proposed:

4.2.1.1.1 Sharing of knowledge

In order to fully extract competitor's and industry information that are available internally in a business, it is necessary to share the knowledge and information. An electronic system is useful to exchange ideas and information between employees, typically, a knowledge sharing tool can be used for this purpose (Silver, 2003:2)

4.2.1.1.2 Leverage unstructured information

Another action that can be taken is to go beyond the information that can be found on internal databases and document management systems. Employees may also have large volumes of information that are never added or shared on these document management systems or databases. These sources include research notes, work-in-progress documents and bookmarked intranet sites (Silver, 2003:2).

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4.2.1.1.3 Follow personally the knowledge trail

It must be taken into account that the transfer of knowledge can be formal as well as informal. Formal knowledge transfer takes place through explicit means, such as searching databases or corporate intranet sites for specific information. Informal knowledge transfer can occur from a number of places and sources, the most valuable source being person-to-person discussions. Silver (2003:2) suggests that, in order to identify these in-house experts, to follow the business knowledge trail. This can be achieved by identifying the author and making personal contact. During the person-to-person discussion additional information can be obtained or certain information may be clarified, even their analysis and recommendations may be discussed (Silver, 2003:2). An added advantage of this is that a personal network is built of employees that can be contacted when new information is required in the future.

4.2.1.1.4 Motivation of employees

Employees in the business must understand and comprehend the importance of recording information and how it forms part of their work related tasks (Bartram, 2000:45).

4.2.1.1.5 Implement a formal structure

The formal structure involves the existence of a process that regulates the flow of information through the different layers or functions in the business (Bartram, 2000:45).

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The reason for having the above-mentioned processes and steps in place is that the bulk of information and knowledge is scattered across the business in employee's hard-drives, in e-mail folders, intranet bookmarks – even within the minds of employees (Silver, 2003:1).

4.2.1.2 Sales and marketing employees as a source of information

It is claimed by Lorge (1998:76) that sales and marketing employees must be regarded as a valuable source of information because they have already formed relationships with customers, industry experts and other contacts throughout the entire supply chain of the business. The sales and marketing employees can be used in the validation of assumptions and to provide details of what is taking place on the micro level of an industry.

4.2.2 Primary sources

Conferences and seminars are regarded as primary sources of information These events provide platforms for speakers from competitor companies. These events must therefore be used as an opportunity for networking and information gathering (Pollard, 1999:98). According to Pollard (1999:99), most industries have regular meetings between representatives from competitors. These meetings be can useful for a general awareness and for obtaining industry rumours and speculation, that can be followed up at a later stage.

Companies listed on the JSE (Johannesburg Securities Exchange) are required to publish annual reports that include their annual financial statements, CEO and chairman's report, corporate governance report and disclosure in terms of employees, business strategies and the general performance of the business as well as the strategic direction of the company (West, 2001:60). Due to recent corporate governance failures, shareholders, the JSE and government regulators are requiring companies to disclose more information in order to protect the stakeholders of the company. These annual reports are available to everyone and are a valuable source of information. Ettorre (1995:18) argues that, sometimes companies are naïve and provide more information than is required.

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West (2001:63) identifies publications released by companies, such as brochures, in-house journals and newsletters. The latter, which is intended mainly for employees, can contain valuable information on new products being launched, new processes being implemented, changes in the organisational structure, profiles of senior management, new appointments and success stories of the business. Company journals generally provide information on the perspectives of management on the development of the business and the issues it considers as important currently and in the future (West, 2001:63).

4.2.3 Secondary sources

The media is regarded as by Kahaner (1996:65) as a secondary source, because it contains both raw information and analysis or an opinion regarding the information. An important factor that must be taken into account is that not every newspaper article carries the full text of a story, thus it may be sometimes necessary to obtain the original story from the news wire service – such as Associated Press or Reuters – in order not to overlook crucial information (Kahaner, 1996:65).

Industry trade associations publish mainly information about the particular industry, projections and markets. This can be useful to study the industry in general and the issues and trends of that particular industry (Kahaner, 1996:69). Typically market research reports may contain the following useful data: market share analysis; distribution channels used by competitors; customer satisfaction with competitor and a general analysis of customer's perceptions of the strengths and weaknesses of competitor's products and services (West, 2001:58).

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Professional journals are also regarded as secondary information sources. Professional journals are the official publications of professional societies and tend to advance professional knowledge and practice. It must be noted that members of these societies are working in companies and the articles they write often expose internal company practices and information (West, 2001:67).

4.2.4 The internet as a source of information

The internet is regarded by Kahaner (2000:97) as becoming an important source of information, but remains only one part of the collection process. The internet can be a valuable source of information, the main criteria or obstacle being that one must know how to use it effectively, according to Naudé (2002:39). Naudé (2002:39) argues that there is an enormous amount of information and raw data available on the internet, but finding the information can be frustrating.

McCune (1997:58) identifies six general types of information providers for competitive intelligence on the internet: home page of the particular business, trade associations sites, academic and research sites, newsgroups, mailing lists and government regulation sites.

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The reasons for this problem or obstacle because the internet is not well organised, when compared to a library – also, because of the lack of skills to search the internet effectively. This happens because searches are based on key words and not subjects, and thirdly the absence of search engine consistency, differences that exist in search languages, the number of documents indexed and the ordering of results may lead to confusion (Naudé, 2002:39). Thus it is essential that individuals involved in the collection of information must know how to search for information on the internet (Kahaner, 2000:98). To illustrate the above argument, Kahaner (2000:104) uses the term “hidden Web” or “invisible Web”, that refer to online databases that are not indexed or catalogued on search engines because they are placed behind a Website’s CGI script. Spider programmes are not able to reach these databases.

The internet is regarded by McCune (1997:58) is having both strengths and weaknesses, due to its vastness. It can be a useful tool in gathering information on competitors, or a search can deliver vast amounts of information that has no real value. McCune (1997:59) also argues that not all the information found on the internet are true, because no central quality control exists, which means that any person is able to publish information on the internet. It is therefore argued that all information retrieved on the internet must be verified (McCune, 1997:59).

One major disadvantage and challenge of information retrieved from the internet, as identified and argued by Kahaner (2000:106), is that access is not restricted, thus companies that possess a competitive intelligence function all have access to the same information, thus the only factor that will distinguish these companies is how they analyse the information to extract intelligence that can be used in the decision making process. Lorge (1998:76) argues that published reports may contradict one another, therefore the human element in the collecting of information remains important. The conjunction of published information with human sources will thus provide a clear picture of what is really taking place in the external environment, implying being that the interviewing of primary resources will remain a critical element in the collecting of information.

Kassler (1999:24) describes the internet as a double-edged sword, because it offers access to almost limited information that may be suspect. Information on the internet may be easy to access, be unique data, free or obtained at a low cost. The fact that information obtained from the internet may not be as comprehensive, accurate or reliable must be taken into account at all times during the collection phase (Kassler, 1999:24).

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4.2.4.1 Guidelines for evaluating internet sources

Burwell (2000:54) identified guidelines and criteria by which internet sources can be evaluated. These guidelines are useful applied when it is required to subscribe to a database, vendor or service provider in order to search for the required information.

4.2.4.1.1 Examine the subject matter offered

It is necessary to learn what subject matter is available and offered by the service before committing to a subscription. This depends on the information required, whether it is focussed, varied or only business orientated (Burwell, 2000:54).

4.2.4.1.2 Know the age and amount of the information

The business's most frequent research questions must be kept in mind when selecting the service provider. It must be determined whether the database to be selected, contains the most recent information, or historic information and how often is the database updated (Burwell, 2000:54).

4.2.4.1.3 Determine the frequency of updates and reloads

The frequency of update varies with type of, availability of, and demand for the information. Certain sources are updated annually, while others are available in real time or updated over shorter time periods. This will be important if current data is required and if historic data has no value for the business (Burwell, 2000:55).

4.2.4.1.4 Examine the format of the results

According to Burwell (2000:55), users expect to obtain full text documents when retrieving information from online sources, while older databases only contains citations or abstracts. Therefore it is necessary to determine the format of information required before subscribing to a service provider.

4.2.4.1.5 Consider the interface

It must be determined if the service's interface is complex or require experience and/or training to use or whether it is user friendly and is not time-consuming when retrieving information (Burwell, 2000:58).

4.2.4.1.6 Search for special features

The next guideline assists in searching for special features that can save the business retrieving the information time and labour, for example the database allows businesses to generate customised reports and software or documents in multiple languages (Burwell, 2000:58-59).

4.2.4.1.7 Consider all pricing options

The evaluation of the subscription costs depends on whether a business considers the required information necessary at any cost (Burwell, 2000:59).

4.2.4.1.8 Determine the geographic coverage of the source

It must be determined if the information on the database is global or country specific, because vendors may only provide a few sources from a handful of countries and claim that this is, in fact, global coverage (Burwell, 2000:57).

4.3 COLLECTION METHODS

Once the information sources have been identified, the next step involves the collection of the information. The following discussion focuses on the various collection methods that can be used.

4.3.1 Observation

This includes observing movements around the offices and outlets of competitors, new construction projects in progress, customer service at retail outlets, volumes and patterns – suppliers or customers – of delivery vehicles. These observations provide useful information on the state of the competitor's business (CBIA, 2003:21).

4.3.2 Reverse engineering

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This process is to gain insight on the quality and costs of the products and services produced by competitors by analysing and dissecting the products or services (CBIA, 2003:22).

4.3.3 Exhibitions and conference operations

Obtaining information on competitors by attending exhibitions and conferences is regarded by CBIA (2003:22) as an excellent opportunity in information collection, but a prerequisite is the identification of key intelligence topics for the exhibitions and conferences.

4.3.4 Industry and technical meetings

Most industries have regular meetings of representatives from the companies in that particular industry. These meetings can be useful in developing a general awareness of industry gossip and speculation. Pollard (1999:99) argues that the person attending these meetings must write a brief list of main points identified and to follow up at a later stage.

4.3.5 Recruiting competitor's employees

This method may raise some ethical questions, but normally employees from competitors are recruited for their general or specific knowledge about a competitor (CBIA, 2003:22).

4.3.6 Various forms of interviews

Information can be gathered either directly, overtly or under pretext. Pretext interviews occur when a person provides inaccurate or incomplete representation of purpose or intent. Several variations of this technique are provided by CBIA (2003:22) including: relationship fraud (family and friends), blind facsimiles and phone calls, individuals posing as recruiters, potential employees and even customers. Other variations include posing as student researchers, suppliers or vendors, news reporters and benchmark analysts (CBIA, 2003:22).

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4.3.7 Elicitation

Elicitation is defined by CBIA (2003:22) as: "the art of obtaining information without asking direct questions, in a conversation style that reduces concerns and suspicion and enhances the flow of information". This technique has been developed and applied in the psychological field. The technique uses questions or phrases that include word repetition, criticism, naiveté, false statements, quoting reported facts and confidential bait. For example one might make a false statement to a person having the right information, the person might correct you by providing one with the correct information. People are social beings and have a tendency to correct advice or challenge others, want to be recognised, prove others wrong and underestimate the value of information. That is why elicitation can be a useful tool to apply in the collection of information (CBIA, 2003:22).

4.4 CONCLUSION

This chapter identified the different sources of information available and groups these sources in three distinct categories: internal sources, primary sources and secondary sources. Each source was discussed. This led to the identification of the type of information to locate within the different categories of sources. The internal source has been identified as an underestimated source and guidelines or steps have been provided for the effective use of the internal sources in the business as a valuable information source. The internet as a source of information was discussed and the problems identified that can be experienced when searching for information on the internet. The last section dealt with the evaluation of an online service provider of data and information. The last section of the chapter dealt with the different collection methods that can be used to obtain the required information and data.

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CHAPTER 5

ANALYSIS OF THE INFORMATION AND DATA

5.1 INTRODUCTION

Once the sources of information have been identified and collected – phase two – the next step in the competitive intelligence cycle is the analysis – phase three – of the information and data in order to produce actionable intelligence that will be disseminated for the target audience – users or decision makers – which indicated a need for competitive intelligence in phase one – planning and direction. This chapter will discuss analytical techniques and tools that can be applied to turn raw information and data into actionable intelligence.

The critical importance of intelligence is stressed by Johnson (2003:1), who argues that all businesses have the same access to today's quantity and quality of raw information – both internal and external to the business – and must use this to compete in the marketplace. Therefore, the question that businesses must ask do not involve how and where to find the information needed, but rather how to manage the tremendous volume of information and how to apply it effectively in the business. Out of the latter question arises two implications for competitive intelligence, firstly the real value of competitive intelligence is predictive rather than historical in nature and only makes a difference when a gap exists in the knowledge between a business and its competitor's. Secondly, businesses do not have the time nor the inclination to consume information they already have (Johnson, 2003:2). Therefore the challenge is to produce actionable intelligence that is predictive, actionable and unique.

5.2 DISCUSSION ON INTELLIGENCE AND ANALYSIS

According to Corporate Executive Board (2002:8) the key to providing actionable intelligence lies in the analysis of the gathered information. By implication, effective analysis supports senior management's ability to make actionable decisions that may create a competitive advantage for the company. Barlow (2003:52) argues that intelligence exists to provide decision makers with an accurate, comprehensive and unbiased understanding of what is taking place in the world. It can also be stated that intelligence defines reality for those whose actions could alter it (Barlow, 2003:52).

Intelligence is defined as the value added product resulting from the collection, evaluation, analysis, integration and interpretation of the available information, that is used in the decision making process (Fleisher & Bensoussan, 2003:6). Intelligence is also regarded as the collection of information pieces that have been filtered, distilled and analysed (Kahaner, 1996:21).

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The concept analysis is described by CBIA (2003:24) as the critical examination of information to distinguish component parts and determine the various interrelationships. Fleisher & Bensoussan (2003:12) interprets analysis as the separation of the whole into its constituent parts in order to determine the following of each part: value, quantity and quality. It is seen as breaking down an issue into parts. Analysis is further viewed as a multifaceted, multidisciplinary combination of scientific and non-scientific processes by which an individual interprets the data or information in order to extract meaningful insights, correlations, evaluate trends and patterns, identify performance gaps, and, above all, identify and evaluate opportunities available to the business (Fleisher & Bensoussan, 2003:12).

5.2.1 The scope and focus of analysis

In the field of competitive analysis, it is critical to have a clear understanding of the target or scope of the analysis effort. The following six categories encompasses the focus of the analytical tools and techniques that will be discussed in this chapter.

5.2.1.1 Decision scope

The decision scope represents the level of the organisation at which the analysis is intended to impact. Management decisions can be differentiated depending on what level they are made at in the business, who makes the decisions, what are their long term implications, the frequency of decisions made and how these decisions are structured. The decision scope is classified by Fleisher & Bensoussan (2003:13) as strategic, tactical or operational.

5.2.1.1.1 Strategic decision scope

Strategic decision analysis is intended to impact decisions that are rare in the business life and have significant resource allocation impacts and effects on the competitiveness of the business in the marketplace. These decisions are made by senior management and involve the long term organisational goals and objectives of the business. Due to the long term effect of these decisions, they are classified as unstructured and are infrequently made (Fleisher & Bensoussan, 2003:13).

5.2.1.1.2 Tactical decision scope

According to Fleisher & Bensoussan (2003:13), tactical decision analysis are completed to support decisions that are less pervasive than strategic decisions. These decisions involve formulating and implementing business policies. These decisions are classified as semi-structured, and the procedure for making these decisions is not well defined.

5.2.1.1.3 Operational decision scope

Operational decisional analysis is performed to support the day-to-day decisions needed to operate the business. These operational decisions are made frequently and tend to be highly structured and there are well defined procedures that assist lower-level managers in making these decisions (Fleisher & Bensoussan, 2003:13).

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5.2.1.2 Geographic scope

Fleisher & Bensoussan (2003:13-14) argues that businesses are increasingly competing in global environments, and therefore analysis must include the various forms of geographical competition and organisations including national, multinational and global formats.

5.2.1.3 Environmental sectors

It is claimed by Fleisher & Bensoussan (2003:14) that, ideally, competitive intelligence activities should focus on the following six environmental sectors:

- Competitive: The analysis should assess both current and prospective competitors.

- Technological: The analysis should consider current and emerging technologies as well as product and process innovations.
- Customers: Customer analysis should include the current customers, of the business, its competitor's customers and potential customers (i.e., those customers who are currently not purchasing products or services from the business or its competitors, but who may do so in the future).
- Economic: The analysis should take note of economic factors such as GDP/GNP, inflation, interest rates, fiscal and monetary policy, exchange rate volatility and the unemployment rate.
- Political and regulatory: These include the institutions and stakeholders that determine the "rules of the competitive game".
- Social: The demographics, wealth distributions, cultural characteristics, values and norms that shape the context within which competition occurs should also be analysed (Fleisher & Bensoussan, 2003:14).

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5.2.1.4 Temporal

A key focus of the analysis should assess how the chain of activities and events has evolved over time. The analysis would try to determine whether events of the past and present were correlated and what variables would retain positive associations. The analysis can also assess to what degree the variables and context of the past and present would potentially carry over into the future (Fleisher & Bensoussan, 2003:14).

5.2.1.5 Decision maker position

The analysis should always remain focused on the Key Intelligence Topics (KITs) of the decision makers (Fleisher & Bensoussan, 2003:12).

5.2.1.6 Product technological scope

The analysis should also consider what critical activities are involved in delivering the products and services to the customer, topics such as demand, supply and the value chain can be included (Fleisher & Bensoussan, 2003:14).

5.2.2 Five types of problem solving

Fleisher & Bensoussan (2003:16) identify five types of problem solving methodologies that can be applied in the analytical phase.

5.2.2.1 Analogy

Analogy occurs when analysts reason from the evidence found in parallel cases. It can be helpful when figures and formulas generated by interpolation does not provide the missing data (Fleisher & Bensoussan, 2003:16).

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5.2.2.2 Deduction

This problem solving methodology represents the ability to identify patterns from a reasonably complete set of data (i.e., from the general to the particular). The lower the proportion of available to missing data, the lower the probability that the conclusions will be valid. Deduction can be applied for forecasting techniques (Fleisher & Bensoussan, 2003:16).

5.2.2.3 Extrapolation

Extrapolation is a forecasting process whereby data is extended beyond a series. Trend extrapolation identifies and projects historical trends into the future (Fleisher & Bensoussan, 2003:16).

5.2.2.4 Induction

According to Fleisher & Bensoussan (2003:16), induction is the ability to identify patterns from a limited set of data (i.e., general inferences made from particular instances). It can be described as the reasoning process by which the analysts pass from the perception of particular phenomena, such as events or things, to the knowledge of more general truths.

5.2.2.5 Interpolation

Interpolation is a way of providing the missing link in a set of data, interpolation occurs when data are inserted into a series. This problem solving technique can be used when the financial data from a competitor is disaggregated in order to determine the financial performance of the company or a particular business unit (Fleisher & Bensoussan, 2003:16).

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5.3 THE ANALYTICAL PROCESS

The analysis phase is regarded by Montgomery & Weinberg (1998:51) as the formal process that attempts to identify and measure relations among the variables. The process itself is viewed as a logical process rather than a mathematical process. Bartram (2000:45) argues that predictability must be regarded as the strength of the analytical phase in the competitive intelligence cycle, because when completed successfully, the business thinks through future scenarios more thoroughly and therefore makes more accurate predictions and decisions.

It is argued by Kinard (2003:40) that in order to be competitive, organisations and their management must keep their eyes on the horizon and focus on the future. By performing this activity it places the organisation on a level to act on, rather than react to, the changing business environment. The lack of ability to identify and assess the competitive landscape can cost a business its competitive advantage position in the marketplace (Kinard, 2003:41).

The failure to successfully analyse the external competitive landscape and the forces in the external environment that may affect a business, can be attributed to one problem: that the management jump to solutions, according to Kinard (2003:41). The following five steps are proposed to ensure that these business leaders are better informed, allowing them to create the right solution for the right problem.

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5.3.1 Shifting gears

Shifting gears implies changing between different modes of attention. It means that a person can consciously decide to view something more quickly or slowly, more analytically or more emotionally. Therefore management can apply a full spectrum of information receptors, including intuition. The implication for managers is not to reject intelligence that is unpleasant or in conflict with the current strategic direction of the company. In other words, by shifting gears, the mental filters or paradigms used to exclude or include information that makes management comfortable about business decisions are removed, thereby observing the information more objectively (Kinard, 2003:42).

5.3.2 Dual-mode thinking

It is argued that both the left- and right brain modes must be used in the analytical process. According to Kinard (2003:42), left-brain-dominant individuals tend to be more analytical and logic, while right-brain-dominant individuals are more creative and intuitive. By combining the two brain modes, a deeper insight and clarity regarding the threats and opportunities of the competitive environment is provided. The business environment typically relies on the lefts brain's conceptual cool-headed evaluation of facts and figures, in order to solve problems and identify patterns and opportunities both logical and creatively (Kinard, 2003:42).

5.3.3 Become physical

According to Kinard (2003:42), becoming more physical involves using the products and/or services of the competitors. This redirects the management from a broad perspective to an intimate experience. Managers must see themselves as customers using the product and service for the first time and take note of their own level of satisfaction and experience (Kinard, 2003:43).

5.3.4 Find what is not there

This aspect, according to Kinard (2003:43), involves paying attention for the negative space. This means inspecting the competitive environment for unmet needs and missing information. These negative spaces may include opportunities waiting to be fulfilled and by identifying information that is not mentioned in newspapers, reports or journals (Kinard, 2003:43).

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5.3.5 Powerful questions

By posing the right questions, a business is taken to the root of issues and assumptions about the business and the competition. A business must not waste time by asking easy questions, which will lead to easy answers. Powerful questions can provide a business with a broader range of exploration. This leads a business to examining possibilities and develops scenarios that can provide the business with a competitive advantage (Kinard, 2003:43-44).

5.4 TOOLS AND TECHNIQUES FOR ANALYSING INFORMATION

This section will discuss analytical tools and techniques that can be applied in the analysis of information and data in order to produce actionable intelligence that the business can use in gaining a competitive advantage over its competitors.

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5.4.1 Competitor analysis

Competitor analysis provides a comprehensive picture of the strengths and weaknesses of both current and potential competitors. The analysis provides the business with both an offensive and defensive strategic context within which to identify opportunities and threats. Four purposes of this analytical technique can be identified: to identify competitor's future strategies; predict competitor's likely reactions to competitive initiatives; determine how well matched a competitor's strategy is in relation to its capabilities; and to understand a competitor's weaknesses. Competitor analysis will provide the business with superior knowledge about competitors, thereby creating a competitive advantage (Fleisher & Bensoussan, 2003:144).

5.4.1.1 Steps 1 & 2: Determine who the competitors are and who they may be in the future

The first two steps are closely related and therefore have been discussed as one element. In order to identify the competitors, the strategic groups in the industry must be identified. Strategic groups are defined as closely related businesses that share similar strategies, occupy similar links on the industry's value chain and have similar resource capabilities.

The strategic groups are plotted on a graph with two axes, next the competitors occupying niches within the market are plotted and lastly the potential competitors are plotted that currently operate on the fringe of the industry (Fleisher & Bensoussan, 2003:150).

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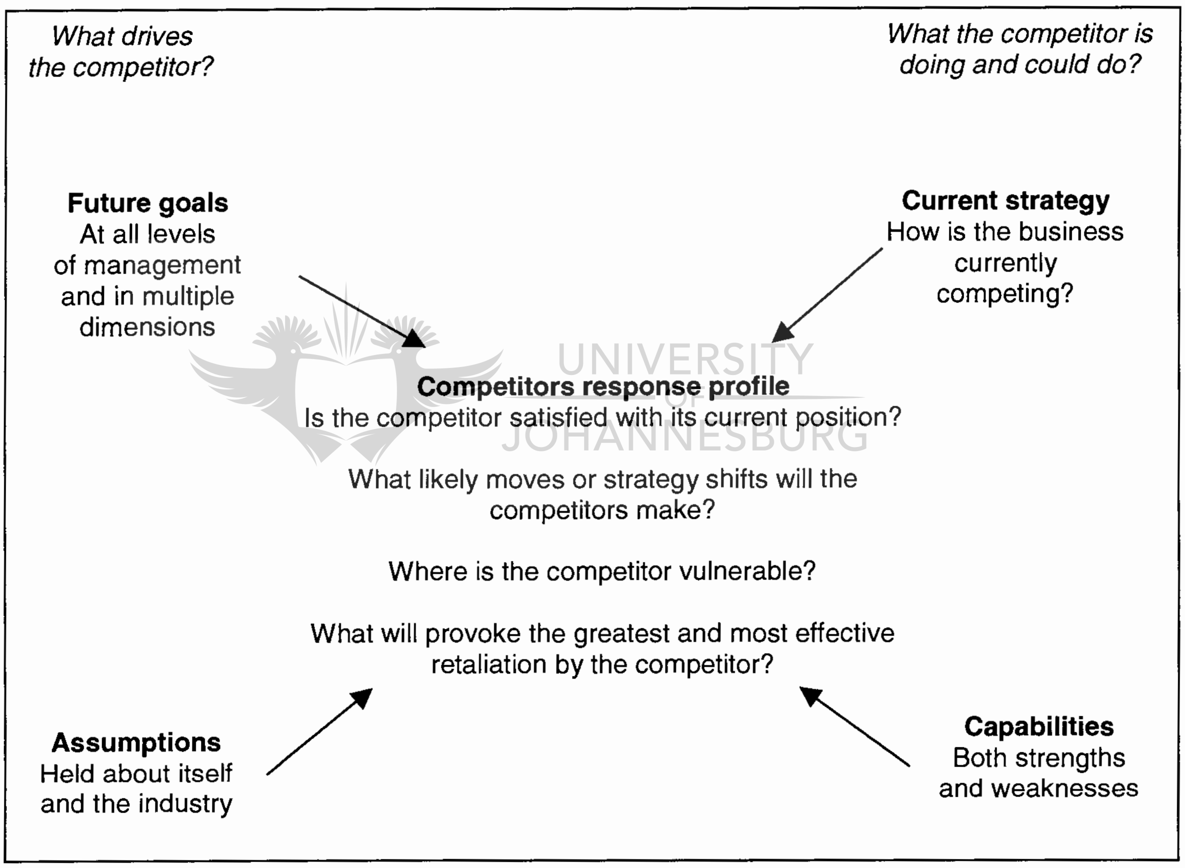
5.4.1.2 Step 3: Conduct a strategic analysis on the gathered information

The following guide can be used in order to analyse the information collected on both current and potential competitors:

- Future goals: By determining the future goals of competitors, the business can forecast possible strategies that these competitors may follow. It is necessary to determine in what direction the competitor is headed with regard to market share, profitability, organisational performance, new product and service development. The business can ask the following question: How are the competitors going to operate in the future?
- Determine their current strategy: The business must be able to determine the current strategies followed by the competitors identified. After this exercise the current and future strategies can be compared.

- Capabilities: The next step is to determine what these competitors are able to do, in other words what are their capabilities, skills and resources.
- Assumptions: The assumptions of the competitors about themselves, the industry and other competitors must be identified. Assumptions can be identified by the mismatch between capabilities, current strategies and future goals (Fleisher & Bensoussan, 2003:154-155).

Figure 5.1: The components of a competitor analysis



Source: Fleisher & Bensoussan (2003:146).

5.4.1.3 Step 4: Continually monitor rivals and for potential rivals

Because competitors are facing volatile markets, hypercompetition, industry changes and decoupling value chains, their current and future strategic plans may change in order to be competitive in the industry, therefore it is necessary to monitor these competitors (Fleisher & Bensoussan, 2003:157-158).

5.4.2 Competitor's business relationships

According to Mockus (2003:8), companies tend to rely not only on their own resources to achieve the set goals and strategies, therefore each competitor should be thought of as a combination of all its alliances and relationships, in addition to its known assets. This technique analyses how a company utilises and leverages its relationships in order to understand its strategies and business goals. An added advantage is that awareness of the various relationships that exist in the industry can provide the company with a more in-depth knowledge of the functioning and future direction of the industry (Mockus, 2003:8).

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The analysis tries to uncover a competitor's relationships, by analysing how competitors structure their products and services to leverage their relationships and alliances (Mockus, 2003:9).

5.4.2.1 Relationship mapping

Once the various alliances and relationships of the competitor has been identified, it is necessary to draw a map in order to construct an accurate picture of the competitor. Relationship mapping is performed at two levels: corporate relationships and individual/personal relationships. Corporate relationships analysis can determine the competitor's strategic direction, while personal relationship analysis determines how a competitor is leveraging personal relationships in order to increase sales, according to Mockus (2003:9).

Individual relationships are interactions that individuals within a business have with people outside or even within the business. Analysing these individual relationships can provide an understanding of key decision makers' thought processes. This can be completed by knowing with whom the key individuals in a competitor communicate and from whom they obtain their information, in order to profile decision making processes, determine future strategies and predict reactions to strategic moves from competitors (Mockus, 2003:9).

Mockus (2003:9) argues that competitors practically give away their strategies through the relationships that they form. New technical alliances can indicate a change in product direction, while connections between individual investors, board members and advisors may be an indication of possible mergers, acquisitions and future alliances. It must be determined how the competitor benefits from these relationships and alliances (Mockus, 2003:10).

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5.4.3 Customer segmentation analysis

Customer segmentation analysis divides markets into groups based on distinct heterogeneous customer needs between groups and relatively homogeneous customer needs within groups. The analysis provides a competitive advantage by matching the value embedded in the business products and services with customer groups most attracted to that value. According to Fleisher & Bensoussan (2003:166), segmentation provides an analytical tool for determining which of the strategies will lead to profitable growth, because the most profitable strategies will be those that target customer segments that identifies the value of the business products and services. West (2001:110) argues that analysts often overlook the use of customers in producing intelligence, therefore, it must be kept in mind that by analysing customers, intelligence on their perceptions, preferences and opinions can be obtained.

5.4.3.1 Step 1: Segmentation

The purpose of the segmentation analysis is to identify customer groups that are both similar within segments as well as differences between segments. The following variables – customer characteristics and product related approaches – can be applied in the segmentation process:

5.4.3.1.1 Customer characteristics

- Demographic: Age, family size, gender and marital status
- Geographic: Rural vs. urban, city, country and province
- Socio-economic: Income, education, religion and ethnicity
- Lifestyle/personality: Attitudes, opinions, interests, tastes and preferences (Fleisher & Bensoussan, 2003:173).

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5.4.3.1.2 Product related approaches

- User types: Regular, non-users, potential, first-time
- Brand loyalty: Loyal/satisfied, unaware, unsatisfied and experimenters
- Price sensitivity: Low-cost orientation and higher-cost quality/differentiation focus
- Perceived benefits: Performance, quality, service and image enhancement (Fleisher & Bensoussan, 2003:173).
- After the segmentation analysis, to business must identify segments that are relatively homogeneous within segments and heterogeneous elements between segments (Fleisher & Bensoussan, 2003:174).

5.4.3.2 Step 2: Targeting

Once a reduced number of segments have been identified, it is necessary to select specific segments for further analysis based on the 4 R test, that poses four questions to determine if segmentation is viable:

- R 1 – Rating the market: Is the segment amenable to both quantitative and qualitative valuation?
- R 2 – Realistic in size: Is the segment large enough in supporting a viable segmentation strategy?
- R 3 – Reach: Is the segment reachable by a feasible communication strategy?
- R 4 – Responsiveness: Will the segment be responsive to the marketing communications strategy and product/service offering? (Fleisher & Bensoussan, 2003:174-175).

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5.4.3.3 Step 3: Strategic positioning

The final step involves the strategic positioning of the product or service with regard to competitive offerings. The end result of the analysis will offer the business insights into how to best manage the four P's of the marketing mix. The four P's can be described as the tactical manifestation of the strategic positioning:

- Product: embedded customer value
- Price: high, low and parity
- Promotion: marketing and sales activities
- Place: distribution channel management

For a business delivering services, the following three P's can be added: People, physical evidence and processes (Fleisher & Bensoussan, 2003:178).

5.4.4 Financial ratio and statement analysis

According to Fleisher & Bensoussan (2003:400), a competitor's financial reports can be used to analyse their competitive performance. This analytical technique is known as FRSA (financial ratio and statement analysis). The FSRA technique can provide insight into a competitor's financial condition, operating performance and future competitive prospects (Fleisher & Bensoussan 2003:403). This argument is confirmed by CBIA (2003:32), who views financial ratio analysis as the understanding of a competitor's financial condition and performance.

Financial statement analysis is regarded by Stice, Stice, Albrecht & Skousen (1999:48) as the examining of both relationships among financial statement numbers and the trends in those numbers over time. The purpose of this analytical tool is to use the past performance of a business in order to predict how the business will perform in the future. A second purpose is to evaluate the performance of the business in order to identify problem areas within the business. The relationships between the financial statement numbers are referred to as financial ratios (Stice *et al.*, 1999:48). Financial ratio and statement analysis is described by Ross, Westerfield, Jordan & Firer (2001:52) as the investigation of the relationships between different pieces of financial information by using the different rations.

5.4.4.1 Key financial ratio types

The financial ratio and statement analytical tool has been arranged according to the following key ratio types.

5.4.4.1.1 Product related approaches

- **Average inventory investment period:** This ratio is calculated by dividing the present inventory balance by the average daily cost of goods sold. A longer average inventory investment period requires a higher investment in inventory by the competitor, resulting in less cash that can be used to pay short term debt.
- **Inventory to sales ratio:** This ration is calculated by dividing the inventory balance at the end of a month by the total sales for the same month. This ratio serves as a reference point for monitoring changes in inventory levels, and will assist in predicting early cash flow problems related to a competitors inventory.
- **Turnover analysis:** The formula for turnover analysis is sales divided by inventory of finished goods. This ratio analyses the business investment in individual items or groups of items that makes up the entire inventory, and determines if the investment is too low, excessive or just right.
- **Average collection period:** Represents credit sales for which payment has not been received. The average collection period is calculated by dividing the present accounts receivables balance by average daily sales. A longer average collection period requires higher investment in accounts receivable and means less cash inflow for the business. The ratio determines the time it takes to recover payment from debtors.
- **Asset turnover:** This ratio represents the sales to the value of the company's assets. It indicates how well a business is using its assets in order to generate sales, in other words a companies efficiency. A high asset turnover the ratio means the company has less money in assets for each Rand of sales income, a declining ratio indicates that the company has overinvested in assets. The

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ratio formula for asset turnover is sales divided by assets (Fleisher & Bensoussan 2003:407-409) & (Stice *et al.*, 1999:49).

5.4.4.1.2 Leverage or solvency analysis ratios

- **Debt to equity ratio:** This ratio indicates the degree of financial leverage the business is using to enhance its return. In other words, out of every R that the owners invested in the business, Xc borrowings have been incurred from outside parties, the higher the ratio, the higher the financial risk that the company is exposed to. The formula is total debt divided by total equity.
- **Debt to assets ratio:** This ratio measurers the percentage of assets financed by creditors, compared to the percentage that have been financed by the company owners, indicating the financial risk of the company, the formula is total debt divided by total assets.
- **Interest cover ratio**: This ratio measures how many times a company can pay/cover its interest bill. It is measured by taking operating income and divide it by interest expense (Fleisher & Bensoussan 2003:409-410) & (Stice *et al.*, 1999:48).

5.4.4.1.3 Liquidity analysis

- **Current ratio:** This measures the ability of a company to pay its short term debt, indicating that for every Rand short term debt liability, the company has X Rand short term assets to cover it with. The formula is total current assets divided by total current liabilities (Ross *et al.*, 2001:53).

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5.4.4.1.4 Profitability

- **Return on assets:** This ratio measures how well a business is applying its assets to produce more income and is often referred to as the return on investment (ROI). The formula is net income divided by total assets.
- **Return on equity:** This ratio indicates that the owners earn Xc for every Rand that they have invested in the company and is determined by net profit after tax divided by equity (Fleisher & Bensoussan 2003:411) & (Stice *et al.*, 1999:49).

5.4.4.1.5 Shareholder return or capital market ratios

- **Earnings per share:** This ratio indicates the profitability of a company, it is determined by taking net income minus dividends on preferred stock and dividing it by the average outstanding shares.
- **Price/Earnings (P/E) ratio:** The formula is current market value per share divided by earnings per share with a high ratio indicating high projected earnings in the future (Fleisher & Bensoussan 2003:412-413) & (Stice *et al.*, 1999:50).

5.4.5 Industry analysis

Fleisher & Bensoussan (2003:60) argue that the industry analysis technique provides the business with an outline of the industry in which they function, by providing an analysis of the participants and characteristics of the industry. The aim of the analysis is to identify the profit potential of a chosen industry; highlight the forces that could negatively affect profitability; forces that could increase profitability and proactively anticipate changes in the industry structure.

This integrated model is known as the Porter's Five Forces model. By identifying the profit potential (i.e., attractiveness) of an industry it provides the business with the foundation for bridging the strategic gap between the external environment and the resources of the business. Porter (1985:4) argues that the determinant of a company's profitability is industry attractiveness. A competitive strategy must grow out of an understanding of the rules of competition that determine an industry's attractiveness. The five forces determine industry profitability because they influence the prices, costs, and required investment of businesses in an industry – the elements of return of investment (Porter, 1985:5).

The industry analysis is viewed by Hitt *et al.,* (2001:69) as an important analytical tool because in recent years industry boundaries have become blurred. Therefore, it has become necessary to view competition as a grouping of alternative ways for customers to obtain value that they desire, rather than direct competition between businesses. Porter classifies five forces or "rules of competition" as follows:

- Threat of new entrants: This describes the entry barriers that define the level of difficulty facing those businesses considering entry into a specific industry.
- Bargaining power of suppliers: This force refers to the ability of the suppliers to influence cost, availability and quality of input resources to the business.
- Bargaining power of customers/buyers: This force refers to the influence that a businesses customers have in terms of prices, expecting a certain service and quality level from the business, with the implication that these customers play an active part in defining the structure of the industry.
- Threat of substitute products or services: Substitute products or services is viewed as different products or services from outside a given industry that

perform similar functions as a product or service that is produced in the industry. Customers may switch to these substitute products, depending on the switching costs, price and quality of the products or services.

- Rivalry among existing competitors: The intensity of competition within an industry is regarded by Fleisher & Bensoussan (2003:63) as the most intense of all forces and is determined by the market growth; cost structure; barriers to exit; switching costs and diversity (Fleisher & Bensoussan, 2003:61-64) & (Hitt *et al.,* 2001:74-75).

The ultimate goal of the analysis is the answer the following questions: How attractive is the industry? How best can the business compete? (Fleisher & Bensoussan, 2003:64). An added advantage is that the industry analytical technique highlights similarities and crucial differences within and among the industry, by indicating competitiveness, in terms of what makes one business or industry more profitable that another (CBIA, 2003:28).

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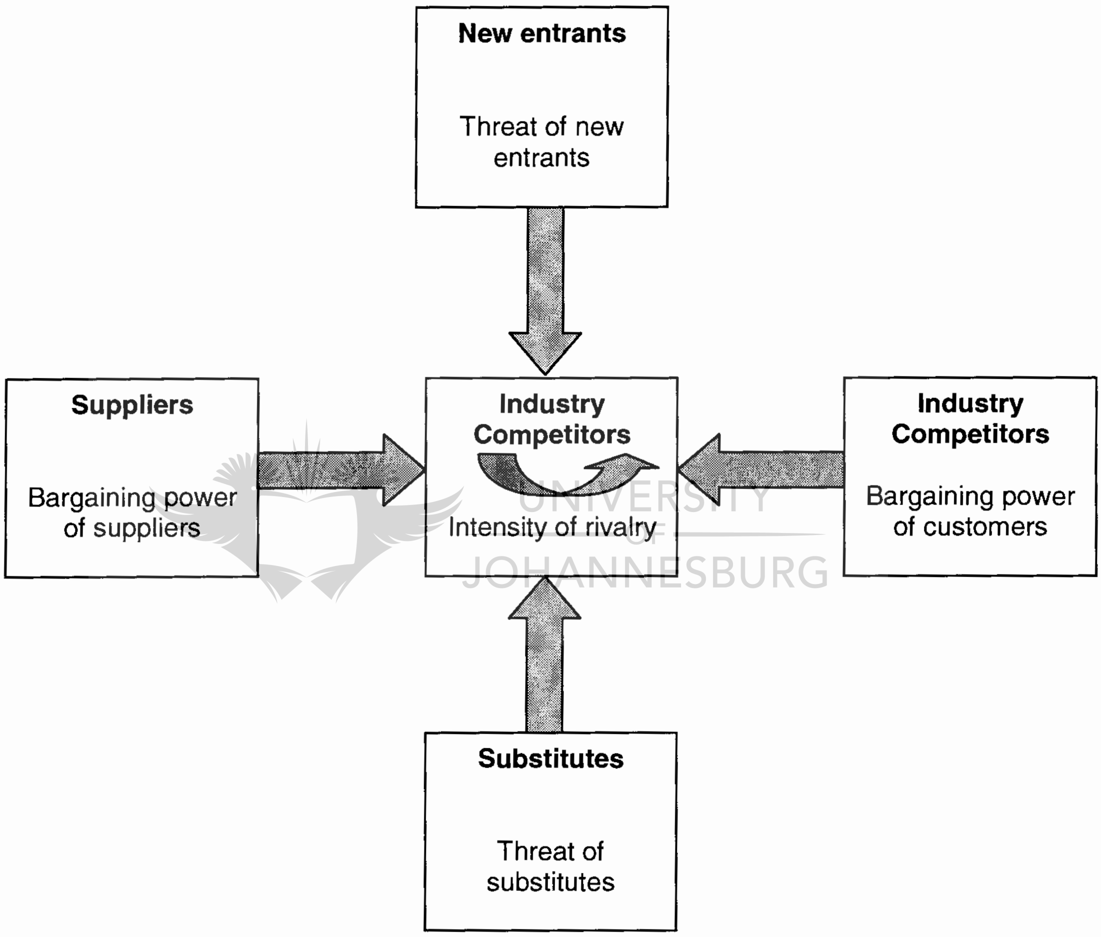
5.4.5.1 Applying the technique

Applying the technique consists of two major steps and several minor steps. Firstly, the business must collect information on each of the five forces and identify the characteristics of each force, and examine and assess their impact on the industry. It is suggested by Fleisher & Bensoussan (2003:67) that the relative strength and weakness of each force must be determined by means of a value indicating if the force is strong, moderate or weak.

It is argued by Porter (1985:7) that in a particular industry, not all of the five forces will be equally important and the particular structural factors that are important, will be different. Because every industry is unique and has its own unique structure. This analytical technique allows a business to see through, understand and identify those factors that are critical to compete in the industry, in order to obtain a competitive advantage (Porter, 1985:7).

Figure 5.2: Porter's five forces model



Source: Porter (1985:5).

The strength of each of the five competitive forces can be regarded as a function of the industry structure, or according to Porter (1985:5), the forces represent the underlying economic and technological characteristics of an industry. Although the industry structure is regarded as relatively stable, the forces can change over time as the industry naturally evolves. Therefore, it can positively or negatively influence the profitability of the industry (Porter, 1985:7).

The next step is to determine the ability of the business to successfully compete within the industry, by taking into account the collective strength of the five forces. This can be achieved by evaluating the strength of the business total resource base. Thereafter the business must determine long terms trends that may change the industry, in order to determine the long term profitability of the industry and the effect on the competitiveness of the business. These trends include government regulation, social and cultural, customers, international, economic and technological.

To complete the analysis the business must integrate the environmental analysis within the broader context of the strategy – finding the best fit between the business resources and capabilities and the external environment. It must be kept in mind that industry structure fundamentally impacts on the strategic choices of the businesses which function in that industry. Therefore each of the five forces should be constantly monitored in order to determine their impact on the current strategy of the business and to identify new opportunities that may develop (Fleisher & Bensoussan, 2003:71-72).

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5.4.6 Invented competitors

An innovative technique that has been adopted by leading companies, is to create an "invented" competitor and then consider what strategies the invented competitor might follow in order to gain a competitive advantage. An added benefit is that the business can identify new opportunities and weaknesses in the current strategy of the business.

Fahey (2002:5) defines an invented competitor as a rival that could appear in the future but which does not exist presently. It is important that the inventor should have at least one unique future: an innovative marketplace strategy. This innovative strategy is built around a new, breakthrough product/service, or at least one that is radically different from present offerings in the industry. The projected strategy should contain the following information: where it competes in the market – marketplace scope; how it competes – competitive position; and the business goals. These elements need to be distinct from any other strategy that is currently being pursued by competitors in the industry (Fahey: 2002:5).

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The reasons why a competitor is invented can be located when Fahey (2002:6) discusses the analytical purpose of this technique:

- to explore what strategies might be possible at some specified point in the future;
- to determine what would have to happen in the competitive context between now and then for each strategy to be possible;
- to anticipate potential new customer needs as well as to solutions required to satisfy them; and
- to identify possible marketplace opportunities that might otherwise be overlooked (Fahey, 2002:6).

5.4.6.1 Step 1: Determine the origin of the competitor

The business must determine what set of factors or circumstances would give rise to a new competitor. The business can identify potential new customer solutions; evaluate the impact of technologies and its evolution and identify what new functionalities customers may require that are not available presently in the market (Fahey, 2002:7).

5.4.6.2 Step 2: Determine the strategy of the competitor

The business must apply creativity and innovation in determining how and when the invented competitor might position itself in the market; how it might compete; and its business goals. It is important to think outside of the boundaries of the current marketplace (Fahey, 2002:9).

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5.4.6.3 Step 3: Determine how the competitor might execute the strategy

This exercise can be difficult in the sense that it can be relatively easy to develop a strategy, but difficult to understand how it might be executed, according to Fahey (2002:9). The following two sets of insights can be used as a guideline:

- How different the invented competitor's strategy would be from those of the current competitors.
- How different the competitive context might be from what it is today (Fahey, 2002:9).

5.4.6.4 Step 4: Determine the strategic implications for the business

Fahey (2002:12) argues that by projecting the invented competitor's strategy, it generates specific implications for the business. These may challenge the business's views and assumptions regarding the state and direction of competition in the industry, why other businesses fail or are successful, how the business can obtain a competitive advantage. The following two issues should be critically reviewed:

- Could the invented competitor really emerge and develop such a winning strategy within the estimated timeframe?; and
- If the answer is yes, then what are the strategic implications for the business? (Fahey, 2002:12).

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5.4.7 Macro environmental (STEEP) analysis

It is argued by Fleisher & Bensoussan (2003:270) that the macro environment can significantly impact the competitiveness of an industry and the companies within the industry. The macro environmental analysis or the STEEP analysis covers the social, technological, economic, ecological, and political/legal aspects that impact the competitiveness.

<u>Table 5.1: Examples of STEEP variables</u>

Social	Technological	Ecological	Economic	Political/social
Cultural Population size Age structure Workforce diversity Ethnic mix	Product innovations Applications of knowledge R&D activities	Environmental regulation Pollution levels Sources of power Water quality	GDP growth rates Inflation rate Interest rates Income distribution	Public opinion Taxation laws Labour laws Political policies Government regulation

Source: Fleisher & Bensoussan (2003:225) & Hitt *et al.* (2001:51).

5.4.7.1 Step 1: Understand the segment of the environment being analysed

To understand the segment of the environment which is being analysed, it is argued by Fleisher & Bensoussan (2003:280) that the following questions could serve as a guideline:

- What are the current key events and trends within the segment? The answer will identify what is currently happening in the industry in terms of developing trends and events.
- What is the evidence supporting the existing of these trends? The business must identify and capture the data supporting these trends in order to monitor the trends direction and evolution.
- How have the trends evolved historically? Trends have life cycles with identifiable stages, therefore, trends emerge, develop, peak and decline. The business must determine where in the life cycle the trend is, in order to understand its evolution and impact.
- What kind of impacts do the trends have for the business? Conceptually, there are three different kinds of impacts, namely positive, negative and neutral (Fleisher & Bensoussan, 2003:281).

5.4.7.2 Step 2: Understand interrelationships between trends

- What are the interrelationships between trends? The business must identify interrelationships between macro environmental sub segments, especially where trends are reinforcing one another.
- What are the conflicts between trends? The explanation given is that trends often push in the opposite direction, for example some people are more

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committed to their work but are also seeking more quality family time according to Fleisher & Bensoussan (2003:281).

5.4.7.3 Step 3: Relate trends to issues

It is claimed by Fleisher & Bensoussan (2003:281) that not all trends are of equal importance to a business or industry, therefore, it is regarded as critical to identify the trends and trend combinations that are likely to have the highest impact on the goals of organisations.

5.4.7.4 Step 4: Forecast the future direction to issues

- Assessing the underlying forces. The next step is to forecast the future evolution of the trends or trend combinations that have been identified as issues to the business. This is completed, according to Fleisher & Bensoussan (2003:281), by analysing the driving forces behind these trends.
- Make alternative projections of the issues. To avoid the limitations created by a single forecast, it is suggested by Fleisher & Bensoussan (2003:282) that multiple scenarios be developed, representing a differing view of the future that is carefully developed around clearly identified trends.

5.4.7.5 Step 5: Derive implications

It is argued by Fleisher & Bensoussan (2003:282) that implications should focus on the following three levels:

- The structural forces surrounding the industry and any strategic groups within the industry.
- How the organisations strategy is affected by these trends and trend combinations.

- How these trends or trend combinations are expected to affect the competitors (Fleisher & Bensoussan, 2003:282).

5.4.8 Managerial profiling

Management personality profiling is an analytical tool that provides the business with an understanding of the backgrounds, goals, personalities, and psychological characteristics of the competitors most important decision makers. According to Fleisher & Bensoussan (2003:225) it can provide a unique insight into how the competitors think, operate and manage in order to predict management's future strategic decision making. An important aspect to consider, as mentioned by Fleisher & Bensoussan (2003:227), is that companies do not make strategic decisions, but individuals do, and this has been a critical oversight of past strategic and competitive analyses, therefore it must be regarded as crucial in having knowledge of the personalities of competitors decision makers.

CBIA (2003:33) argues that learning and understanding as much possible about a competing businesses managers; their education; background; experience; previous actions and whom they employ can assist the business in understanding the management of the competitors. It is important to stay on top of competitors day-to-day actions than rather waiting for the periodic release of their annual reports and other company publications (CBIA, 2003:33).

Kahaner (1996:107) argues that managerial profiling is important because individuals tend to repeat successful behaviours. If a business was successful in the past, the same management team may pursue the previous strategy again in future. The second reason identified is that individuals also tend to learn from past mistakes. If the previous strategy failed in the market, the management team of the competitor may follow a different strategy in the future (Kahaner, 1996:107). The environment in which the individual operates in must also be taken into account according to Kahaner (1996:108), for example the business analysis the external environment are the individual dealing with at the competitor? What barriers and constraints are the individual at the company operating under and how will the individual react? (Kahaner, 1996:108).

5.4.8.1 Step 1: Analysing backgrounds

The first step is to compile a background of the individual executives. This will provide a personal history of experience and functional expertise. Such information can include the following: career history and positions; educational background; age; length of experience; past decisions and their results; hobbies; affiliations; circle of social friends; interests and social memberships (Fleisher & Bensoussan, 2003:230).

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5.4.8.2 Step 2: Analysing management personality

In order to determine how the individual thinks, process information and reasons, it is necessary to include a personality assessment. Information may be obtained by interviewing primary sources that know and have interacted with the individual, and reading media interviews and other public speaking material. Individuals can be classified – first category – as extroverts or introverts; extroverts focus on the outer world, while introverts are more focussed on their own inner worlds. Individuals can also be classified – second category – according to how information is processed. Information comes to an individual in two ways, through the five senses and through intuition. Individuals can be classified as sensing, this represents individuals who prefer to use their senses when collecting information by focusing on the "what is". Intuitive individuals look at the bigger picture, attempting to find meanings, relationships and possibilities (Fleisher & Bensoussan, 2003:231-232).

Table 5.2: Human profile categories

Extrovert	**Introvert**
Interaction Action Easy to know Multiple relationships	Concentration Reflection Hard to know Close relationships
Sensing	**Intuition**
Facts Details Reality Experience	Meaning Big picture Possibilities Hunches
Thinking	**Feeling**
Objective Critique Firmness Justice	Subjective Appreciate Persuasion Mercy
Judgement	**Perception**
Decided Plan ahead Scheduled Planned	Open minded Adapt as you go Spontaneous Open minded

Source: Fleisher & Bensoussan (2003:231-233).

The third category represents thinking versus feeling, which describes how an individual arrives at a decision or conclusion. Thinking describes decisions that are impersonal, objective and logical, while feeling describes decisions that are based on values – however, it does not refer to an individuals feelings or emotions. The last category relates to the way an individual deals with the external world: Judging individuals want to live in a planned, orderly way by controlling it, while perceptive individuals prefer a flexible, spontaneous lifestyle (Fleisher & Bensoussan, 2003:232-233).

5.4.9 Scenario planning and analysis

Scenario planning/analysis is defined by Ringland (1998:2) as that part of the strategic planning which relates to the tools and technologies for managing the uncertainties of the future. Another definition is provided by Fleisher & Bensoussan (2003:284), which define a scenario as a detailed, internally consistent description of what the future may look like. Scenario planning and analysis must be regarded as a structured way of developing multiple scenarios that compensate for two common decision making errors – under- and overprediction of change.

Scenario planning and analysis is a technique that imagines many possible futures of environmental change, isolated trends and patterns (Fleisher & Bensoussan, 2003:284). The ultimate goal of scenario planning is to consider radically different business conditions that may occur in the future, as argued by Mason & Herman (2003:23).

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Nell (1999:87) argues that scenarios are not specific forecasts or predictions, therefore, scenarios only serve as possibilities of the future. Because scenarios are not exact descriptions of the future, scenarios must only be regarded as descriptions of potential environments (Nell, 1999:87). Scenario planning and analysis is regarded as effective because it works through uncertainties, probes conventional wisdoms, and exposes assumptions according to Kennedy, Perrottet & Thomas (2003:4).

Ringland (2002:75) argues that scenarios can assist the business in gaining a competitive advantage because a scenario can explore uncertainty and prioritise issues of potential concern; pick up weak signals of emerging risks and opportunities and prepare the business for surprises. It is regarded by Kennedy *et al.* (2003:10) as managing the range of uncertainty to be faced and the strategies the business can put in place that will provide a competitive advantage for the business, because the business has anticipated the impact of disruptive events that may change the operating environment of the business.

Scenarios are also able to monitor change for the business as identified by Nell (1999:88), thus allowing the business to rehearse the future so that the business is able to adapt rather than react to change. Effective scenarios are regarded by Fleisher & Bensoussan (2003:295) as being plausible, surprising and have the power of breaking stereotypes. By rehearsing the future, the business are in a position to identify warning signs, thus allowing the business to avoid surprises, adapt and act effectively (Fleisher & Bensoussan, 2003:295).

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It is argued by Fahey (2003:32) that managers and decision makers need to be familiar with scenarios of future markets that are not merely extrapolations of current trends. This is because history teaches that the most potent competitors often emerge unexpectedly – from surprising and unanticipated circumstances. Scenarios of futures where the business environment is distinctly different for the current or anticipated conditions can assist the decision makers or senior management project and analyse competitor futures:

- what competitors might do;
- how they might do it; and
- why they might do it (Fahey, 2003:33).

According to Georgantzas & Acar (1995:126) scenarios must involve decision makers by provoking consideration of how subtle variations in a few key relationships can have profound consequences. An added advantage is that by involving the decision makers in the scenario planning, it may lead to a competitive advantage for the business. This view is supported by Mason & Herman (2003:31) who argues that scenario planning must push decision makers or senior management to think in a dynamic timeline, seeing the business and its environment as a system co-evolving over time, thus helping decision makers or senior management gain perspective about business change over time.

Courtney (2003:14) identifies two distinct types of scenarios, namely vision-driven scenarios and decision-driven scenarios.

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Table 5.3: Vision-driven scenarios versus decision-driven scenarios

	Vision-driven scenarios	Decision-driven scenarios
Nature of scenarios	▪ Emphasis on broad, macro environmental and global drivers of change ▪ Longer term (5-10-20+ years)	▪ Focussed on specific uncertainties that drive decision ▪ Generally shorter term
Nature of progress	▪ Emphasis on divergent thinking and broad perspectives ▪ Heavy reliance on outside experts, consultants and facilitators	▪ Data driven and analytical when possible ▪ Heavy reliance on internal expertise and industry experts
How scenarios are used	▪ Generate new strategic ideas ▪ Launch follow-on projects and analyses to further develop implications of the scenarios	▪ Test options or a specific decision against a range of potential outcomes and develop implications for which option to choose

Source: Courtney (2003:15).

Vision-driven scenarios can be described as scenarios that assist management teams think "outside of the box" and question their assumptions about the future, and is used to generate new strategic options. Decision-driven scenarios, on the other hand, are used to inform a well-specified strategic choice – a choice where the "best" option is unclear due to the uncertainty over the impact of that choice. Decision-driven scenarios can be used by organisations for example to decide whether to launch a new product or service, given uncertain consumer demand (Courtney, 2003:15).

5.4.9.1 Step 1: Define the scope of the analysis

The time frame must be set in terms of products, markets, customer groups, technologies, or geographic areas. The time frame according to Fleisher & Bensoussan (2003:291) is dependent on several factors, including product life cycles, political activities, competitor's planning horizons, the rate of technological exchange and economic cycles.

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5.4.9.2 Step 2: Identify the basic trends

It must be determined what industry and STEEP trends are likely to have an affect on the issues identified in the previous step. Each trend must briefly be explained by additional information on how it may affect the business (Fleisher & Bensoussan, 2003:291).

5.4.9.3 Step 3: Identify uncertainties

The step, as argued by Fleisher & Bensoussan (2003:291), is to isolate outcomes and events that are uncertain or will significantly affect the issues that the business is concerned about. For each uncertainty, possible outcomes must be determined; the business must also identify relationships that may exist among these uncertainties.

5.4.9.4 Step 4: Construct initial scenario themes

The business can select the top two uncertainties and evaluate them, or cluster various strings of possibilities outcomes around high versus low continuity, degree or preparedness according to Fleisher & Bensoussan (2003:291).

5.4.9.5 Step 5: Check for consistency and plausibility

The next step involves to assessment of the following two aspects by the business:

- Are these tends compatible within the chosen time frame? If not, remove those trends that do not fit.
- Do the scenarios combine outcomes of uncertainties that indeed fit together? If not, eliminate that scenario (Fleisher & Bensoussan, 2003:292).

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5.4.9.6 Step 6: Develop learning scenarios

According to Fleisher & Bensoussan (2003:292), general themes should have emerged from performing the previous actions. The business must therefore, identify themes that are strategically relevant and then organise the possible trends and outcomes around these themes.

5.4.9.7 Step 7: Identify research needs

The next action is only necessary if the business requires a more in depth understanding of the uncertainties and trends as claimed by Fleisher & Bensoussan (2003:292).

5.4.9.8 Step 8: Develop quantitative models

The business can develop quantitative models that can assist in the quantification of the consequences of various scenarios according to Fleisher & Bensoussan (2003:292).

5.4.9.9 Step 9: Evolve toward decision scenarios

The last action involved is selecting scenarios that will test the business strategies and generate innovative ideas, the criteria being that the scenarios selected must address the real issues facing the business and the competitors (Fleisher & Bensoussan, 2003:292).

The end result of these actions should be in the form of three to four carefully constructed scenario plots. It is necessary for the business to identify their implications and they need to be monitored on an ongoing basis. Fleisher & Bensoussan (2003:292) identifies three options that are available to the business when dealing with future uncertainty:

- Shape the future: The business can plan to be a shape-shifter by defining the competitive parameters of the future scenario(s), by betting on future trends.
- Adapt to the future: This can be described as the benchmarking approach that positions the business in a position of operating excellence designed to capitalize on trends as soon as they develop.
- Strategic options: This can be described as a conservative, proactive strategy that invents the minimal amount necessary to purchase strategic options but avoids overt vulnerability (Fleisher & Bensoussan, 2003:292).

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5.4.10 SWOT analysis

SWOT is an acronym for strengths, weaknesses, opportunities and threats and is applied in the assessment of the fit between an organisation's strategy, its internal capabilities – strengths and weaknesses – and external possibilities – opportunities and threats. According to Fleisher & Bensoussan (2003:92) the essential thrust of the model asks four questions:

- What can the business do (i.e., strengths and weaknesses)?
- What does the business want to do? (i.e., organisational and individual values)?
- What might the business do (i.e., external opportunities and threats)?
- What do other competitors do? (i.e., stakeholder expectations)?

Kahaner (1996:99) argues that the SWOT analysis provides a comparison between the business and its competitors, the analysis is more of a qualitative nature.

5.4.10.1 Applying the SWOT analysis

The following information should be included in the SWOT analysis:

- Strengths: Include the competitor's most powerful attributes, namely its patents, technology infrastructure, market share, depth of management, financial position, customer loyalty, quality of products or services and other factors that provides the competitor with a distinct advantage.
- Weaknesses: This represent the opposite of the competitor's strengths, and can be regarded as the competitors liabilities, such as debt, unskilled employees, poor service levels and internal processes and technology that are

outdated. It is therefore imitations and defects within a competitor that will keep it from achieving it strategic objectives.

- Opportunities: Represent chances to prosper from a changing marketplace, industry situation, external environment conditions and an overlooked need that support the demand for a product/service and permits the competitor to enhance its competitive position.
- Threats: Threats can be regarded as the opposite of opportunities due to the fact that they represent external conditions that can be harmful to a business. It may be a barrier, constraint that might inflict problems, damages or harm to the business such as, higher interest rates, new competitors, costly government regulations and raw material shortages (Fleisher & Bensoussan, 2003:99) & (Kahaner, 1996:98-99).

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According to Bateman & Snell (1999:137) the value of the SWOT analytical technique is that is assists the business in utilising the strengths of the business in order to capitalise on opportunities, counteract threats and alleviate internal weaknesses.

5.5 COMPETITIVE INTELLIGENCE AS A SOURCE OF COMPETITIVE ADVANTAGE

The ultimate goal for the business is to assimilate the intelligence produced in order to gain a competitive advantage in the market place over its competitors. In order to be successful and have a competitive advantage in the current and future business environment, more is required than the traditional innovation. This element that will differentiate competitors has been labelled by Codrington

(2002:38) as “radical innovation”, this requires the embracing of dualities, the creation of chaos. In order to successfully apply “radical innovation”, businesses must have a clear view of the future. Codrington (2002:38) argues that the more the world changes, the less appropriate it will become for business to extrapolate from past experiences. Businesses that simply improve from past successes will, accordingly to Codrington (2002:38), not have a competitive advantage. Therefore, businesses will be required not to learn from the past, but rather, to learn from the future.

Codrington (2002:39) proposes that businesses must adopt a way of thinking, based on the principle that in a business environment that is changing at the break-neck speed, the worst place to start contemplating the future of the business is where the business is currently now. Therefore competitive intelligence as an integral part of the business can provide in the needs as expressed above, when correctly applied from the first cycle – planning and direction – to the last cycle – dissemination:

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- Assessment of business and competitor strategies
- Competitor perceptions
- Effectiveness of current operations
- Competitors capabilities
- Long term market prospects (Johnson, 2003:3).

The intelligence obtained from the third cycle – analysis – of the competitive intelligence cycle, must therefore form part of the strategic decision making process of the business that involves anticipating future developments so that strategies can be formulated accordingly (Weiss, 1999:1). It can be concluded that competitive intelligence identifies the drivers of change – forces that shape the competitive environment – for an industry and its competitors. In order to determine the impact on the industry, for the business to plan accordingly and gain a competitive advantage out of the changing business environment. Therefore, it is imperative for the competitive intelligence to be included in the strategic management process in order to look at how industries change and to be in a position the plan accordingly (Weiss, 1999:3-6).

5.6 CONCLUSION

This chapter has focussed on the analytical tools and techniques that can be used in the analysis of information and data. It has been argued that all businesses have access to the same quality and quantity of information. Therefore, the only aspect that will distinguish the businesses from one another is how they analyse the information and apply the intelligence in their strategic management processes. The analytical process has been discussed by indicating its importance in the assessment of the competitive landscape and external business environment.

Altogether, ten analytical tools and techniques have been discussed that can be used by the business in order to analyse the information and data. This can be seen as the process in which the business has to make sense of the information and data. It has been concluded that the ultimate goal is to assimilate the intelligence produced out of phase three – analysis – of the competitive intelligence cycle in order for the business to gain a competitive advantage over its competitors. Out of the intelligence, the business must be able to assess trends and forces that shape the external environment and the impact on the industry and the business; possible future strategies of competitors; capabilities and weaknesses of competitors; and possible new competitors. This is to ensure that the business achieves a competitive advantage by anticipating future developments so that strategies can be formulated and implemented accordingly.

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CHAPTER 6

SUMMARY, RECOMMENDATIONS AND CONCLUSION

The objective of the study was to determine if a business could use competitive intelligence in order to determine potential competitor strategies. The study has therefore, focused on the competitive intelligence cycle, as well as the techniques and tools can be used in producing actionable intelligence for use in the strategic management process, in order to formulate strategies that will result in a competitive advantage.

The study has established that the business environment is of such a nature that it is critical for businesses to fully understand the impact of the forces in the external business environment that have an influence on the business. Businesses are required to pay careful attention to new trends and developments occurring in the external environment in order to develop strategies for the business that are applicable and competitive. Businesses may realise that they do not have the correct information available, or they have not analysed the information in a way that will assist them to monitor the external environment. The ultimate goal for the business is to use the intelligence in gaining insight and perspective about the external environment.

The study has argued that businesses must use competitive intelligence in order to analyse competitors and the external environment in order to achieve a competitive advantage. The study has also indicated that turning raw information into actionable intelligence is becoming the most critical management tool for a successful company. An important aspect that must be taken into account, is that although the quality of the information is important, the aspect that will distinguish businesses is what they do with the information – how the business analyse and apply the intelligence.

The study has argued the importance of having a competitive intelligence function in the business. Reasons given for the importance of a competitive intelligence function included: increase in the pace, complexity and speed of business; the knowledge economy and information overload; increased level of competition; aggressiveness of existing competitors; political, economic and technological changes. The business value of competitive intelligence was discussed; the underlying principle is having knowledge about your competitors on the following aspects:

- Who is the competition of the business, now and in the future?
- What are the competitor's strategies, objectives and goals?
- What are their strengths and weaknesses?

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A section was devoted to a discussion of the legal and ethical aspects of competitive intelligence. It can be concluded that the competitive intelligence function must adhere to legislation, corporate codes of ethics and codes of ethics within industry. A separate section discussed the role of competitive intelligence in the strategic management process, indicating that competitive intelligence identifies and highlights potential threats and opportunities on the horizon in order to for the strategy to fit in with the external environment. It has been concluded that competitive intelligence can assist the business in making more effective strategic decisions, resulting in the business having a competitive advantage, because the business is in a position to better understand the industry and competitors.

The study has established that the competitive intelligence function consists of four distinct phases or cycles, which are followed in order to produce actionable intelligence for the business. The four phases are: planning and direction; collection; analysis and dissemination. The first phase – planning and direction – is used to determine the intelligence that is required, it can be seen as a needs assessment. It is used to determine what the decision makers require and why they need the intelligence, in other words what decisions will be made from the intelligence presented. The Key Intelligence Topics (KIT) process was discussed – it can be applied in order to identify the intelligence needs and requirements.

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The second phase – collection – is used to identify the most valuable sources to be used in the collection of information and data. This information and data is regarded as the input used to produce the intelligence. Information sources can be categorised as internal, primary and secondary sources. Internal sources consist of information gathered from within the business. Primary sources are regarded as unadulterated facts obtained directly from the source, whereas secondary sources are regarded as information that have been changed or altered by personal opinion or interpretation. This was followed by a discussion of each source and the type of information that can be found in each source. The discussion was followed by a section on how to successfully collect internal information as well as a separate discussion on the internet as a valuable source of information. The section argued that although the internet must be regarded as a valuable source of information, the main obstacle is that one must know how to effectively search for information, because the internet is not well organised and structured when compared to a library. In this section, guidelines have been provided by which internet sources can be evaluated, when it is required for the business to subscribe to a database, vendor or service provider to search for and retrieve the require information. An important point made, was the fact that all information retrieved on the internet must be validated in order to assure that the information and date is accurate. The methods of collecting the information were also discussed.

Phase three of the competitive intelligence cycle involves the analysis of the raw information and data in order to produce actionable intelligence. The challenge for the business is to produce actionable intelligence that is predictive and unique. A discussion followed indicating that it is necessary to have a clear understanding of the target or scope of the analysis effort. During the analytical phase it may be necessary to apply and be aware of problem solving methodologies. This study discussed the following problems solving methodologies: analogy; deduction; extrapolation; induction; and interpolation. It was argued that the analysis phase or cycle is the formal process that attempts to identify and measure relations among the variables. Altogether, ten analytical tools and techniques have been discussed that can be used to produce intelligence. Each technique or tool was introduced followed by a discussion on the steps or actions involved that must be followed to produce the intelligence. The following analytical tools and techniques were discussed: competitor analysis; competitor's business relationships; customer segmentation analysis; financial ratio and statement analysis; industry analysis; invented competitors; macro environmental (STEEP) analysis; managerial profiling; scenario planning and analysis; and SWOT analysis.

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The fourth phase – dissemination – involves the distribution of the intelligence to those who requested the competitive intelligence. Two factors identified will determine the success of the dissemination namely, the presentation and the follow-up process to ensure that the competitive intelligence is correctly understood and interpreted. This will ensure that the intelligence is effectively communicated to the decision makers. This involves how the decision makers prefer the intelligence to be received or presented. This will allow the decision makers to act on the intelligence and use it in the strategic management process.

CONCLUSION

The study has indicated that the ultimate goal for the business is to assimilate the intelligence produced out of the four phases in order to gain a competitive advantage in the industry over the competitors. The competitive intelligence could provide intelligence for the business that will indicate competitor strategies, capabilities, strengths, weaknesses and trends/forces that will shape and change the external and competitive environments. The intelligence can provide intelligence that can be applied in the strategic management process in order to formulate and implement strategies that take into account the strategies of competitors and forces and trends in the external business environment for the business in obtaining a competitive advantage. The business must act accordingly, taking changes in the external and competitive environments into account when business goals are determined and strategies formulated.

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