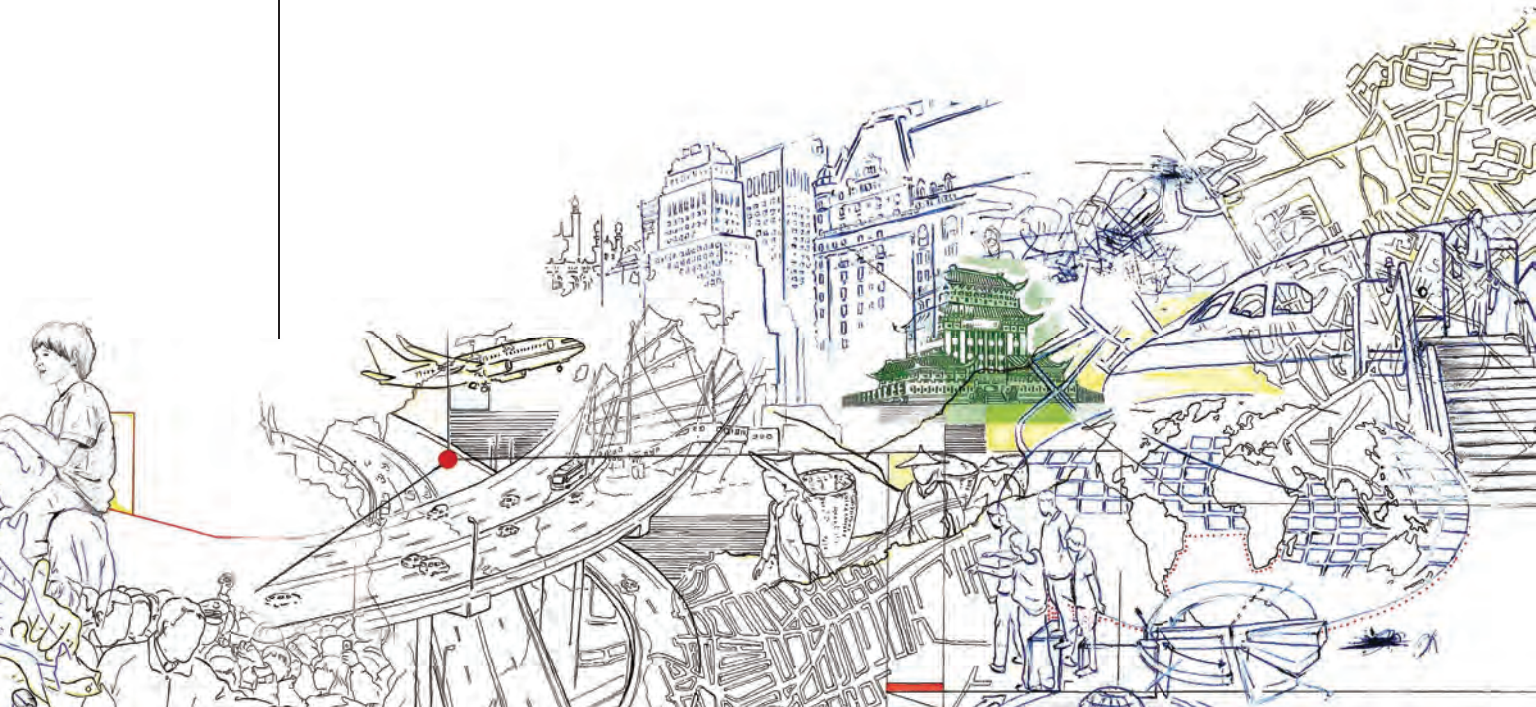


# The Art of Intelligence

*Why companies need Intelligence to stay ahead in a changing world*

**JOHANNES DELTL**



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to stay ahead in a changing world*

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THE ART OF INTELLIGENCE

Why companies need intelligence to stay  
ahead in a changing world

by Johannes Deltl

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# Praise for The Art of Intelligence

The Art of Intelligence gives useful, practical ideas **who** should invest **why** into Intelligence and provides a comprehensive overview **how** Intelligence could be introduced into an organization. A very useful source for anyone planning to invest into this topic.

■ *Jutta Wiedenfeld, Head of Market Intelligence, Fujitsu Technology Solutions*

This latest edition of The Art of Intelligence serves as a welcome, much needed, and up-to-date work on the subject of competitive intelligence. It is refreshingly clear, comprehensive and well organised. I especially value its focus on competitive intelligence as an essential support function in business strategy, and will be specifying it to my MBA and executive education students as a required text.

■ *Prof. Douglas Bernhardt, Lecturer at Wits Business School (Johannesburg), the University of Stellenbosch Business School, and the Nelson Mandela Metropolitan University Business School (Port Elizabeth), in South Africa, and the Department of Intelligence Studies, Mercyhurst University (Erie, Pennsylvania).*

The “Art of Intelligence” hits all the marks. It explains in accessible detail the steps involved in competitive intelligence, its promises and pitfalls, and the all-important return on investment. This book works for those just starting out and those already practicing CI techniques. If your competitors read this book, you should be concerned.

■ *Larry Kahaner, author of the bestselling “Competitive Intelligence.”*

The book is the synthesis of strategic view with a sense of detail and analytical capabilities. It is written in a very clear structure and has compelling arguments - including case studies- why companies should have Strategic Intelligence processes and how to start those. Hence, the book is a must for people in the profession or those who are asked to become Intelligence Professionals.

■ *Daniel Berhin, Senior Manager, McKinsey & Company*

“The first step to successful adaptation is recognising the need to adapt. For this we need what Johannes Deltl describes as Intelligence – knowledge about what is happening and what has happened. We need to know how patterns of events, trends of human behaviour are affecting what we do. The second step to successful adaptation is understanding the adaptation required. For this we also need Intelligence – knowledge about alternatives available, limitations, options, possibilities – so that we can take the third step, adapting as necessary,– when will again need Intelligence to know how well our efforts are working and learn to shape a better future...”

■ *Max Mckeown, Author of The Strategy Book & Adaptability, [www.maxmckeown.com](http://www.maxmckeown.com)*

# Preface

I was first confronted with Intelligence in the mid-nineties, while working for the CEO of a small investment bank. Since then the topic never let me go. The internal information library of this bank was hording mountains of critical business information - but that information never reached the relevant departments, as the Information team would wait and hope that someone would eventually show up and ask for support. I was surprised and shocked by the fact that all these critical information not being used. So I started researching the topic, first in Sweden, than in the States to understand how other companies are dealing with the transformation of information into Intelligence. My findings were that other companies would encounter similar issues, and gradually the idea matured to write a book to help close the gap.

I saw many mistakes being made, even very respectable corporations. While advising companies, I realized how much can be achieved by educating managers about market and competitive forces. So my intention for this book is to share the insights that I gathered in the last decades working together with leading global companies. Intelligence is a business disciplines but also an art that you need to understand and practice regularly to excel in it.

Today, strategic and actionable Intelligence is more important than ever. Major developments of the last couple of years, most notably technological progress, the financial crisis and the arising of the BRIC countries (Brazil, Russia, India, China) have deeply affected the global competitive landscape. A strong focus on future trends and developments as well as current market and competitor analysis is more important than ever to secure sustainable competitive advantages.

Whereas companies used to simply ask themselves whether or not to monitor their competitive environment, nowadays they must decide on the amount of resources they wish to deploy for this purpose. Most companies fully acknowledge the necessity of Intelligence. What company could afford to do without Intelligence?

*"Intelligence is the lifeblood of a company."*

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Spring 2013

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# Introduction – Getting started

## Structure of this book

The first chapter discusses the benefits of Intelligence for different corporate functions and industries. The second chapter takes a closer look at the process behind Intelligence and illustrates each step. The third chapter shows the prerequisites that you need within the firm to establish Intelligence. The fourth chapter presents case studies from large corporations. Executives from different industries and companies present their insights and experiences in Intelligence.

## How to use this book

### *Who should read this book?*

Since this is not the book's first edition, I may report on its readership from my work. It is currently being used by academics in the fields of marketing and strategy, leading management consultancies and decision makers of medium- and large-size companies. The goal of this book is to show managers the value of Intelligence and present solutions that can be implemented to stay ahead.

The book is structured as follows:

**Fast forward:** Each chapter's aims are presented at its start i.e. what use does the chapter have for the reader? At the end of each chapter, main findings are summarized.

**Icons** will inform you about:



**Checklists:** This book is written to guide your use of Intelligence within your company. You will therefore find useful and comprehensive checklists in each chapter.



**Cloud:** You may also download Checklists and additional items online at [www.art-of-intelligence.com](http://www.art-of-intelligence.com)





**Practical examples:** To illustrate the practical applicability of the reviewed analyses and information, examples and best practices from real companies around the globe are provided.



**Case Studies:** Longer example from several companies around the globe.



**Hints:** This icon marks tried and tested advice.

Relevant quotes are included to make the lessons livelier and stimulate further thinking.

Happy reading!

# 1.

# Intelligence – what’s in it for me?

---

## Main topics

- 1.1 Why engage in Intelligence?
- 1.2 Tactical instrument and strategic method
- 1.3 Benefits
- 1.4 The ROI on Intelligence
- 1.5 Intelligence by Functions
- 1.6 Intelligence by Industries
- 1.7 Ethical standards and limits

## Objective

- Know what is meant by the term Intelligence.
- Learn the different Intelligence value drivers, quantitative and qualitative.
- Understand the potential benefit of Intelligence within your industry or functional area.
- Understand why it is important to have continuous Intelligence activities to survive in the market.

## 1.1 Why engage in Intelligence?

*'Every morning, a gazelle awakens in Africa  
She knows she will have to run faster than the fastest lion that day  
Or she will die.  
Every morning, the lion awakens.  
He knows he will have to catch the slowest gazelle  
Or he will die of hunger.  
It does not matter if you are the gazelle or the lion  
When the sun rises, you should start running.'*

(Muhammad ibn Raschid Al Maktum)

A company's environment is no longer what it used to be. It is deeply affected by a much higher flow of information and a fast pace of technological change. Also, the pressure to innovate and to innovate fast is higher than ever before.

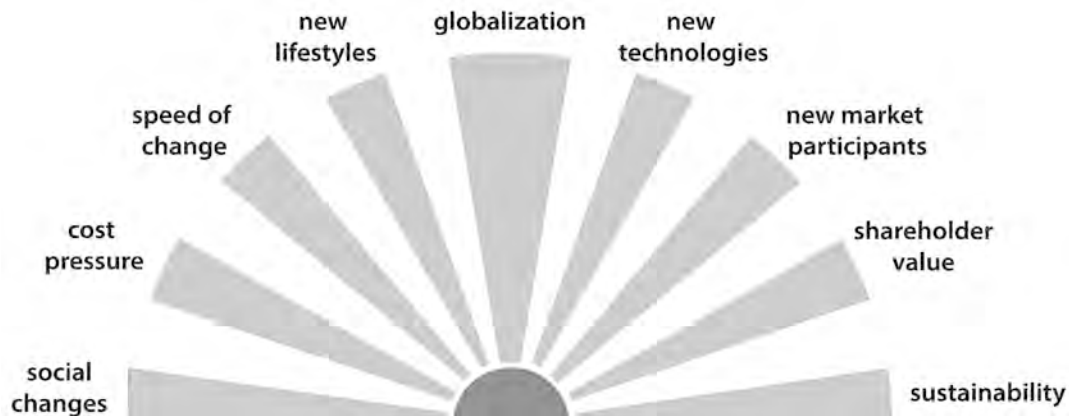
Increasing globalization of markets makes monitoring and analysis of the competitive landscape more important than just a few years ago. No company, regardless of size, can afford not to be informed about its market environment, competitors' products, prices, sales channels and communication activities. Doing business without systematic use of Intelligence amounts to threatening a company's competitiveness or even existence in the long run. Out of the Fortune 500 companies of the 80ies less than 30 % have survived until today. Can you imagine Google or Apple not existing anymore?

Competitive pressure is on the rise and generally considered to be very high. A focus on respective industries shows that competitive pressure is increasing considerably. The main reasons behind this phenomenon are new market entrants, technological progress and increasing globalization. This makes a detailed analysis of the most important competitors and a comparison against the company's own situation indispensable. It is the only mean by which companies can correctly identify potential competitive advantages and disadvantages.

Governments are also getting more involved in business affairs these days than ever before. They are also showing clear signs of protectionism and preferential treatment towards state-owned companies, as evident in the Chinese government's support for its solar industry by providing them long term loans to outmaneuver the competition.

The reaction of competitors to a company's strategies and the recognition of early warning signs in the market need to be incorporated into an evolving corporate strategy. Without actual (market) information, product development, product adjustments, market developments are based on mere assumptions and is similar to driving a car in fog. **Intelligence is therefore of utmost strategic importance for every company.**

To speak in terms of the story at the beginning of this chapter, there are a multitude of challenges that must be dealt with adequately and continuously.



*Megatrends and other challenges of risks and chances are arising at the horizon*

### ***Moving from ad-hoc mode towards a systematic approach***

Many companies examine their market and competition reactively or passively e.g. a small team of employees will gather information such as financial data, market data and product descriptions for an ad-hoc study – often related to a board meeting. However, insights gained from such exercise only serves a short-term tactical benefit. Most companies fail to engage in a strategic and long-term approach to Intelligence.

To be aware of the competitive environment and, more specifically, of competitors' plans, product offers and competencies, is of primordial strategic importance for any company. A systematic and relentless approach to Intelligence allows companies to protect and even increase their market share Vis-à-vis competitors. Deeper knowledge and understanding of the market and of the competition secures a company's competitive advantage and constitutes an important basis of entrepreneurial success.

Being aware of these competitive threats i.e. whether they are long term/short term or organic/disruptive etc. is crucial for a company's success. The following matrix illustrates some samples.

**Real threats from competition - examples**

		<b>Customer Base Erosion</b>	<b>Product Innovation</b>
Long-term		<ul style="list-style-type: none"> <li>▪ Marks &amp; Spencer general retail</li> <li>▪ Triumph motorcycles</li> <li>▪ Eddie Bauer mail order</li> </ul>	<ul style="list-style-type: none"> <li>▪ Agfa Gevaert still photography</li> <li>▪ Royal Mail mail service</li> <li>▪ Palm hand-held devices</li> </ul>
	<b>Time Horizon</b>		
Short-term		<b>Marketing Mix</b>	<b>Competitive Take-Over</b>
		<ul style="list-style-type: none"> <li>▪ Opel passenger vehicles</li> <li>▪ E.ON UK electricity retail</li> <li>▪ CREST toothpaste</li> </ul>	<ul style="list-style-type: none"> <li>▪ Mannesmann mobile telecom</li> <li>▪ Compaq computers</li> <li>▪ TWA airline</li> </ul>
		Organic	Disruptive
		<b>Type of Threat</b>	

Source: Theron Consulting

Intelligence helps companies to:

- Anticipate changes in the economy and their specific industry
- Anticipate competitors' activities
- Enter new markets
- Discover new or potential customers
- Generate new knowledge about the latest technologies, products and processes
- Generate new knowledge about the political, legal or societal changes which may influence the company
- Identify potential acquisition targets
- Learn from the successes and failures of others
- Realistically assess or benchmark company's own strengths and weaknesses
- Systematically discover new markets and product niches



### *Even the German gods engaged in Intelligence*

German god Odin had two agents called Hugin (thought) and Munin (memory). Disguised as ravens, they both flew out into the world each day to gather information for Odin. Nothing could hide from their discerning gaze, and when they returned to Odin, they would land on his shoulder and whisper their thoughts and memories into his ear.

## Definition

The terms competitive Intelligence, competitor analysis, market Intelligence, corporate foresight, customer insights, competitor research, business Intelligence etc. are all interrelated.



*Existing terms across the company*

What matters is not the terminology itself, however, but what these terms stand for, how they are understood and used within a company, and how a company can utilize them.

Intelligence is a systematic management method that includes the following activities or elements:

- Gather and analyze data and information from internal and external sources
- Analyze, process and document strategically relevant information into reports and Intelligence which constitute ready-for-action decision aids for management
- A structured evolving process
- Sharing the newly acquired insights with requisite decision makers (an important component of management's decision-making process)

Approach to study and monitor the competitors and market environment in a continuous, systematic and a thorough manner whilst transforming this information into useful decision support to achieve strategic competitive advantage.

## 1.2 Tactical Intelligence instruments and strategic Intelligence methods

*'If you know yourself and you know your enemy, you will win each battle.  
If you know yourself but not your enemy, you will lose one battle for each battle you win.  
But if you know neither yourself nor your enemy, you are a fool and you will lose every battle.'*

(Sun Tzu, The Art of War)

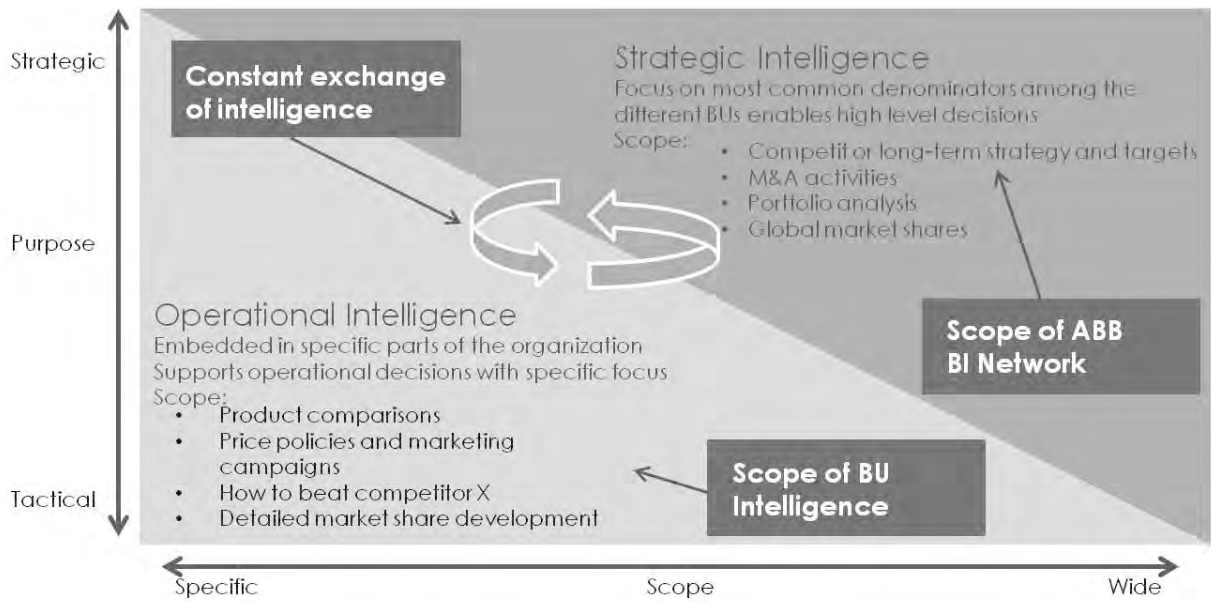
Intelligence deals with a long-term strategic method as well as a short-term tactical instrument. Ideally, Intelligence should deal with both.

The **strategic component** is oriented towards the long run and the future. It is about anticipating future goals of competitors, as well as their current strategy, their assumptions about your own company and the market as a whole. It is about foreseeing market developments and competitors' responses to your own strategy. All this must adequately take into account long-term developments that are not covered in the current business activities.

The **tactical component** is less oriented towards the future. It mainly deals with concrete information about the present. This makes the tactical component of Intelligence an important ingredient for everyday operations of a company.

	Tactical	Strategic
<b>Issues covered</b>	Day to day: price changes, sales force deployment, tweaks to market messaging	Long term: industry trends, M&A, in-depth competitor assessments
<b>Research Methods</b>	Focused on field Intelligence, customer insights	Multiple sources such as field sales, industry journals, consultants, etc.
<b>Analysis Methods</b>	Win-loss, SWOT, product comparisons	5 Forces, value chain, Ansoff product matrix
<b>Internal customers / Target group</b>	Sales teams, customer support, pricing	Top management, marketing strategy, business development
<b>Applications and uses</b>	Win business today	Plan for long term

Source: *Outward Insights* ([www.outwardinsights.com](http://www.outwardinsights.com))



- Strategic intelligence is the responsibility of Divisions and GF-CS
- Operational intelligence is the responsibility of the BU's
- Constant exchange of intelligence across all boundaries

Difference between strategic and tactical Intelligence with the example of ABB - Source: ABB



## 1.3 The Value

Intelligence is of strategic importance for every company. In addition, by providing relevant past, present and future information of the competitive landscape, Intelligence serves not only strategic, but also operational and tactical decision-making and helps to identify emerging opportunities and risks early on. In practice, Intelligence and reaching the related goals and targets give companies a diverse range of benefits:



*Value of Intelligence*

### ***Decision support***

Starting from the acquired information, Intelligence supports the companies to develop a strategic direction, for example regarding market development and marketing plan.

### ***Simulation of new developments***

The effect of planned measures for adapting products and strategies vis-à-vis different market situation can be simulated and tested in advance (see 'war gaming' in Chapter 2.3).

### ***Monitoring Achievements***

Intelligence allows managers to monitor the success of the measures they take in the various strategic and operational units of the company. Managers might ask themselves:

- Are we achieving the desired strategic positioning?
- Did we also achieve qualitative goals in addition to business goals?
- How does our success with customers measure compared to that of the competitors?
- How do our marketing measures differ from those of our competitors?
- Do new product features lead to a desired positioning for our products?

Questions like these allow management to go beyond mere financial control to a more strategic and proactive leadership role.

Intelligence adds value in the following ways:

### ***Time and speed***

A further advantage of undertaking Intelligence in a professional manner is time/speed. Intelligence allows companies to stay abreast of a broad spectrum of ongoing changes in the market. This allows management to act quickly in developing strategic options. This type of competitive response is especially important when there are changes in the law affecting the business or game-changing moves of key competitors – such as an aggressive advertising campaign, radical price rebates or a revolutionary sales strategy. Intelligence thus acts as an early warning system, which increases management's flexibility.

### ***Maximize opportunities – increase deals, turnover and profit***

Intelligence serves to maximize opportunities for further market growth by identifying new sales channels, business opportunities and profit centers. Some companies achieve higher hit rates than competitors in invitations to bid and pitches. Detailed coverage and constant monitoring of the competitive landscape and market environment make new markets and market opportunities visible, which may lead to increases in turnover and profit.

## **Minimize risks and save costs**

Intelligence allows companies to detect pending threats to their current business resulting from such things as regulatory and legal frameworks, changes in technology, changes in customer needs and so on, and to take effective counter-measures. Intelligence allows companies to save time and money, for example in preventing technical faults in product design, in designing marketing campaigns and in extending capacity. Benchmarking different divisions within the company vis-a-vis competitors or companies from other industries enables cost reductions.

## **Which strategic risks are we facing?**

- Could there be market erosion?
- Are consumer behaviors/consumer preferences changing to our disadvantage?
- Will the pressure for lower margins in our industry rise?
- Are new technologies on our radar?
- Will the market continue to stagnate?
- Are there new players in our market in the emerging economies (China, India)?

*Source: Douglas Bernhardt*

## **Recognizing disruptive elements**

Disruptive elements are new market participants, products/services or events, which have the potential to change the entire industry. An example within the telecommunications industry would be Apple, that not only introduced a new mobile device to the market but also their own closed 'ecosystem' which shuts out telecommunications providers. Or think of natural disasters like the tsunami in Japan. These developments can only be adequately recognized by regularly and broadly monitoring market signals, which are otherwise too weak to get picked up.

## **Identifying blind spots**

Recognizing the company's own 'blind spots' which have crept up during years of industry experience is another added value of Intelligence. I have realized in many workshops that many managers have steadfast opinions and are oblivious to current developments. Their motto is 'But it was always like this'.



### **Preventing bad investments**

Analyzing a main competitor's online banking services and monitoring the customer approval rates over time leads one company to reduce their own activities in this arena and only offer a minimal version to customers. In retrospect, this allowed the company to prevent a huge investment, which would have gone to waste.



### Highlighting liquidity problems

An employee of an international industrial company discovers during small talk at a symposium that an important customer is in serious financial trouble. Though this does not affect her directly, she wrote a short report that is fed into her company's Intelligence database. Within minutes, the respective account managers and decision makers are alerted about this new development by email, which allows them to take the necessary steps. In this case, the customer's payment terms was changed.

Below, you will find a checklist to assess if you or your own company is sufficiently informed on your competitors and market (or is there room for improvement)?



### Checklist: Information on competitors and your market

HOW DO YOU COMPARE TO THE COMPETITION?  
EVALUATE THE EXTENT OF YOUR INFORMATION ABOUT YOUR INDUSTRY

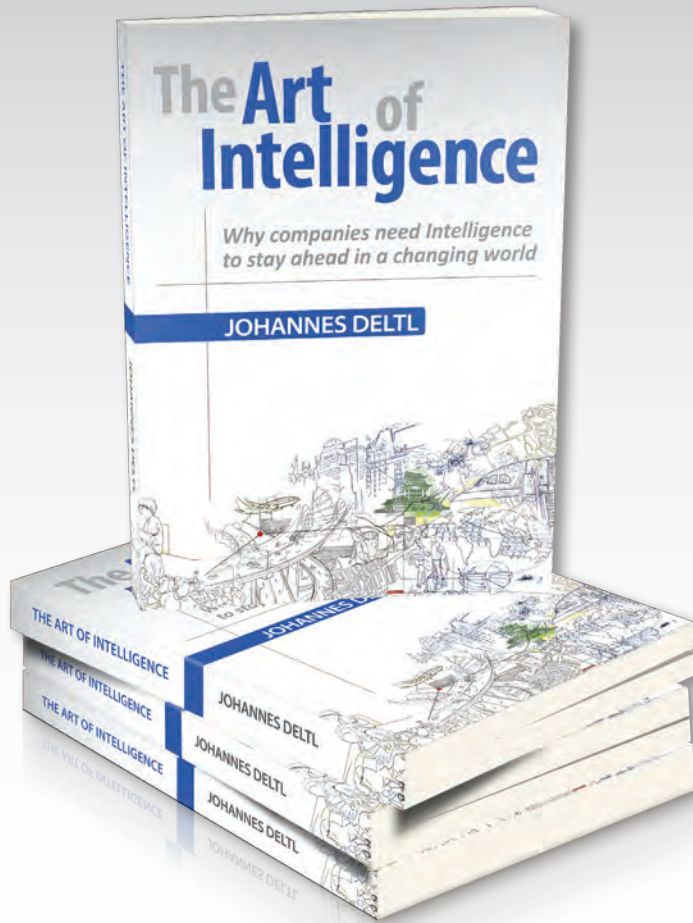
Questions	Yes	No
1. Do you know your industry's megatrends?	<input type="checkbox"/>	<input type="checkbox"/>
2. Do you draw new ideas for strategy from them?	<input type="checkbox"/>	<input type="checkbox"/>
3. Do you know all potential competitors?	<input type="checkbox"/>	<input type="checkbox"/>
4. Do you know your competitors' products/services?	<input type="checkbox"/>	<input type="checkbox"/>
5. Do you know your keys competitors well enough to be able to anticipate their future strategy?	<input type="checkbox"/>	<input type="checkbox"/>
6. Are you aware what sales pitch your competitor is using?	<input type="checkbox"/>	<input type="checkbox"/>
7. Are you aware of your product's advantages over competitor products from a customer perspective?	<input type="checkbox"/>	<input type="checkbox"/>
8. Are you aware of your product's disadvantages compared to competitor products from a customer perspective?	<input type="checkbox"/>	<input type="checkbox"/>
9. Do you know the future developments of your industry? The opportunities and risks?	<input type="checkbox"/>	<input type="checkbox"/>
10. Would you be prepared if the competition were to lower their prices aggressively?	<input type="checkbox"/>	<input type="checkbox"/>
11. Have you taken measures to prevent key employees from being wooed away by competitors?	<input type="checkbox"/>	<input type="checkbox"/>

Questions	Yes	No
12. Do you know the prices and product policies of your main competitors?	<input type="checkbox"/>	<input type="checkbox"/>
13. Do you know what patents your competitors have applied for in the last six months?	<input type="checkbox"/>	<input type="checkbox"/>
14. Are you aware of the financial clout of your competitors? Are you aware of their ownership structure?	<input type="checkbox"/>	<input type="checkbox"/>
15. Do you know the customer structure of your competitors?	<input type="checkbox"/>	<input type="checkbox"/>
16. Do you know the suppliers of your main competitor?	<input type="checkbox"/>	<input type="checkbox"/>
17. Are you familiar with your competitors' marketing activities?	<input type="checkbox"/>	<input type="checkbox"/>
18. Are you aware of your international competition?	<input type="checkbox"/>	<input type="checkbox"/>
19. Do you know which factors are set to strongly influence your industry?	<input type="checkbox"/>	<input type="checkbox"/>
20. Do you know which planned or announced legal or regulatory changes directly affect your division?	<input type="checkbox"/>	<input type="checkbox"/>

**Is the number of 'No'-responses discomfoting?**

In that case, you should definitely continue reading.

And even if you know most of it already, you should keep reading nonetheless – one can never know too much.



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