



GUIDE TO THE STUDY OF INTELLIGENCE

## Where did competitive intelligence come from?

CI traces its origins to Professor Michael E. Porter's<sup>5</sup> seminal 1980 work, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, in which he describes creating a competitor analysis system<sup>6</sup>. Also, there's some evidence that the retirement of US government intelligence community officials at the same time also served to introduce the concept of competitive intelligence to corporations.

Motorola is recognized as the home of one of the first full-time modern competitive intelligence units:

[Jan Herring]<sup>7</sup> "Although I started my intelligence career in 1963, I became a private sector competitive intelligence professional in 1983 when I joined Motorola. [Robert Galvin,<sup>8</sup> then CEO of Motorola] wanted a business intelligence program very much like the ones he had observed in government....My approach was [to apply] government principles, theory, and practices using my own professional skill."<sup>9</sup>

[Robert Galvin] "[Jan Herring] oversaw [Motorola's] development of a pioneering business intelligence system based on national security principles."<sup>10</sup>

Since that time, CI has been adopted by numerous private organizations, as well as included in university-level courses, and has been nurtured by numerous professional organizations, including the Strategic and Competitive Intelligence Professionals (SCIP, formerly the Society of Competitive Intelligence Professionals) and the International Association for Intelligence Education (IAFIE).<sup>11</sup>

## Competitive Intelligence

John J. McGonagle

Competitive intelligence (CI) principally involves the private sector.<sup>1</sup> It goes by a variety of names. Its definition remains somewhat fluid.

For example, CI is:

- The use of lawful and ethical procedures to collect data and then analyze it to assist an enterprise, profit, non-profit, or governmental to compete better.
- A way to help an enterprise obtain and then maintain a competitive advantage.
- Actionable intelligence, on the entire competitive environment, which includes an enterprise's competitors, suppliers, customers, and potential competitors, as well as its regulatory and political environment.

Other terms describe elements of competitive intelligence.<sup>2</sup> Competitive intelligence is not espionage or spying; both are unlawful. Business intelligence is an older term for competitive intelligence.<sup>3</sup> It has fallen out of use as a synonym for CI, since it has also been adopted by those involved with knowledge management and data mining,<sup>4</sup> which are internally-focused, not externally-focused, processes.

5. Porter is Bishop William Lawrence University Professor at the Harvard Business School.

6. Michael E. Porter, "Appendix B: How to Conduct an Industry Analysis," *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, New York: The Free Press, 1980, pp. 368-82.

7. Jan Herring was former director of intelligence at Motorola, and before that a career intelligence officer at the CIA. See also Jenny Fisher, "Competitive Intelligence: A Case Study of Motorola's Corporate Competitive Intelligence Group, 1983-2009," in the *Guide to the Study of Intelligence*, *The Intelligencer*, the Association of Former Intelligence Officers, Vol. 20, No. 3, Spring/Summer 2014. Available on the web at [http://www.afio.com/40\\_guide.htm](http://www.afio.com/40_guide.htm).

8. Galvin had served on the US President's Foreign Intelligence Advisory Board.

9. "Symposium: Lessons Learned and the Road Ahead," *Competitive Intelligence Review*, 8:1, pp. 7, 8-9 (1997).

10. Robert W. Galvin, "Competitive Intelligence at Motorola," *Competitive Intelligence Review*, 8:1, pp. 3, 4 (1997).

11. For more on this, see Larry Kahaner, *Competitive Intelligence*, Simon & Schuster, New York, 1996, pp.15-19.

1. In the context of governmental intelligence, "CI" often refers to counterintelligence. In this article it only means competitive intelligence.

2. See Table 1.

3. Compare, for example, the titles over time from the same author: Kirk W.M. Tyson, *Business Intelligence*, Merced, CA: Leading Edge Publications, 1986 and Kirk M. W. Tyson, *The Complete Guide to Competitive Intelligence (Fifth Edition)*, Merced, CA: Leading Edge Publications, 2010.

4. The process of sifting through massive amounts of data (in computer readable form) to reveal intelligence, hidden trends, and relationships between customers and products and storing the data for easy retrieval. Knowledge Management is the combination of Data Warehousing and Data Mining, aimed at exploiting all data in a company's possession.

## Table 1. Some Competitive Intelligence Terminology

**Competitive Benchmarking:** Involves using CI techniques to develop data on competitors, which is then used for benchmarking. Differs from other forms of benchmarking in that the target, a competitor, is not cooperating in the project, and, in fact, is unaware of the project at all. Also known as Shadow Benchmarking.

**Competitor Analysis:** An assessment of the strengths and of the weaknesses of current and potential competitors. This aims at bringing all of the relevant sources of competitive analysis into one framework to support effective strategy creation, execution, monitoring and adjustment.

**Environmental Scanning:** Study and interpretation of political, economic, social and technological events/trends that influence a business, an industry or the market.

**Gaming:** An exercise that has people either acting as themselves or playing roles in an environment that can be real or simulated. Games can be repeated but cannot be replicated, as is the case with simulations and models. Also known as War Gaming or Scenario Playing.

**Market Intelligence:** Intelligence developed on the most current activities in the marketplace.

**Reverse Engineering:** Discovering the technological principles of a device, object, or system through analysis of its structure, function, and operation. It often involves taking something apart.

**Strategic Intelligence:** Competitive intelligence provided in support of strategic, as distinguished from tactical, decision-making.

- Environmental scanning – studying and interpreting political, economic, social and technological events/trends that influence a business, an industry or the market.

- Technology intelligence or competitive technical intelligence – activities that allow a firm to respond to competitive challenges or identify and exploit opportunities resulting from technical and scientific change.

- Competitive benchmarking – techniques to benchmark a competitor, without its involvement.

### Is there a CI Cycle?

CI traditionally is viewed as following a cycle,<sup>12</sup> not unlike the intelligence cycle found in the literature of government intelligence operations.<sup>13</sup> That cycle usually starts with the determination of need, followed by research, then analysis, then communication to the customer and its utilization. In the case of the individual doing it himself

or herself, this cycle really does not exist; rather, this is merely an approximation of the thought processes that individual goes through. Increasingly CI professionals are recognizing that the feedback necessary at every step in the CI cycle to every other step the cycle means that the CI cycle, as it operates for the classic CI professionals, also is more of a theoretical description.<sup>14</sup>

### Where is CI today?

Emerging today are two types of CI, varying by the perspective of the end-user. Over the past 30 years, most CI has been provided by individual CI analysts to another person or another unit within a business, or to their end-user (customer). Within the last 10 years, an alternative has developed whereby the individual manager develops CI for his or her own use and there is no one dedicated full-time to the CI process. For these people, CI is an additional management tool just as are directing personnel, undertaking strategic planning, coping with Six Sigma, doing budgeting, etc.

There are multiple forms of competitive intelligence, depending on focus:

- Competitor intelligence – focused only on competitors.
- Strategic intelligence – supporting the development and execution of corporate strategy and strategic planning.
- Marketing intelligence – supporting sales and marketing.

12. See, e.g., Kenneth Sawka, "Your Company's New Foray into Competitive Intelligence: Factors for Success," in *Starting a Competitive Intelligence Function* (Kenneth Sawka and Bonnie Hohhof, eds.), Competitive Intelligence Foundation, Alexandria, VA 2008, p.4.

13. See, e.g., Robert M. Clark, *Intelligence Analysis: A Target-Centric Approach* (Second Edition), CQ Press, Washington, DC, 2008, p. 10; John Nolan, *Confidential*, HarperBusiness, New York, 1999, pp. 7 *et seq.*, and Kahaner, *op. cit.* at 43 *et seq.* This reflects the significant influence of former government intelligence analysts who have joined companies as CI analysts.

14. For a more detailed critique, see John McGonagle, "An Examination of the 'Classic' CI Model," *Journal of Competitive Intelligence and Management*, 4:2, 2007, pp 71-86.

## Is CI useful?

Actually the question should be “Where would it not be useful?”

The most common uses for CI are in the development and execution of corporate strategy, in support of sales and marketing operations, in product development, and risk management. It is also used in many other places ranging from human resources to customer profiling and from reverse engineering to patent mapping.<sup>15</sup> But in all cases, the goal is to understand where a competitor, or supplier or customer, is, what they are doing, and what they are capable of doing. Then sound analysis can often predict what they are likely to do. But CI is not strictly predictive, it is also an analytical discipline.

Establishing the monetary value of CI is not an easy proposition,<sup>16</sup> in part because most businesses do not employ any objective measurement methods,<sup>17</sup> or are very reluctant to release them when they do. However, there is some evidence that clearly show its utility and value:

- In a rare disclosure, in 1994, NutraSweet’s CEO publicly valued CI to NutraSweet at \$50 million (\$80 million today). That figure, he said, was based on a combination of revenues gained and revenues which were “not lost” to competitive activity.<sup>18</sup>
- A mid-1990s study of the packaged food, telecommunications and pharmaceutical industries, reported that organizations that engaged in high levels of CI activity show 37% higher levels of product quality, which is, in turn associated with a 68% increase in business performance. It also reported that organizations that engaged in high levels of CI activity show 36% higher levels of quality in strategic planning. And, high confidence levels in strategic plans are, in turn, associated with a 48% increase in business performance.<sup>19</sup>

15. “Patent mapping is essentially the visualization of the results of statistical analyses and text mining processes applied to patent documents. Patent mapping allows the creation of a visual representation of information from and about patent documents in a way that is easy to understand. Using bibliographic data one can identify which technical fields particular applicants are active in, and how their filing patterns and IP portfolios change over time. It is also possible to find out which countries lead in which fields.” <http://www.epo.org/searching/essentials/business/stats/faq.html>

16. See, e.g., John J. McGonagle and Carolyn M. Vella, *Bottom Line Competitive Intelligence*, Quorum Books, Westport, CT, 2002, pp. 11-20.

17. Dale Fehringer, Bonnie Hohhof, and Ted Johnson, *State of the Art: Competitive Intelligence – Executive Summary*, Competitive Intelligence Foundation, Alexandria, VA, 2006, p. 13.

18. Robert Flynn, “NutraSweet Faces Competition: The Critical Role of Competitive Intelligence,” *Competitive Intelligence Review*, Vol. 5:4 (Winter 1994) 4-7.

19. Bernard Jaworski and Liang Chee Wee, *Competitive Intelligence*:

- Several years after that, it was reported that CI’s participation in the value extraction process of intellectual asset management alone has financial impacts ranging from millions of dollars (patent maintenance & filings), to tens of millions of dollars (licensing), to hundreds of millions of dollars (R&D) to billions of dollars (M&A).<sup>20</sup>

In most cases, however, the situation is as noted by IBM:

IBM is not sure that [calculating a return on investment for the intelligence function] is possible within its organization, nor would the calculated value be accepted by the organization. The calculated value would likely be much greater than others expect given the high-level strategic decisions linked to competitive intelligence.<sup>21</sup>

## Management Issues

Because of its nature there are management issues associated with CI. One is its relationship to market research.<sup>22</sup> One way to look at this relationship is to understand the fundamentals that drive market research versus CI. It is only a slight overstatement to say that market research is primarily quantitative, forward-looking, and often of a relatively short time horizon. CI, on the other hand, is largely qualitative (in most cases), involves retrospective as well as prospective views, and, particularly in the case of supporting strategy, can span periods of years in the future. In cases where CI is part of a business early warning system, CI may be looking forward 5, 10 even 20 years. Developing, using and supporting such activities requires corporate management dedication and patience. But the payback can be significant.<sup>23</sup>

For example, Professor Ben Gilad has described the case of the then-aerospace division of Daimler-Benz which operated in an industry “where product cycles last twenty-five years.”<sup>24</sup> During its operations,

*Creating Value for the Organization – Final Report on SCIP Sponsored Research*, Vienna, VA, The Society of Competitive Intelligence Professionals, 1993.

20. Paul Germeraad, “Intellectual Asset Management: The New Strategic Weapon of Corporation America,” in SCIP, *14th Annual International Conference and Exhibit – Proceedings* (SCIP, April-May 1999) pp. 47-62.

21. “IBM Corp.” in APQC International Benchmarking Clearinghouse, *User-Drive Competitive Intelligence: Crafting the Value Proposition*, APQC, Houston, 2003, p. 95.

22. For more on this, see Alf H. Walle, III, *Qualitative Research in Intelligence and Marketing*, Quorum Books, Westport, CT, 2001, pp. 1-45.

23. For more on this, see Alessandro Comai and Joaquin Tena Millan, *Mapping & Anticipating the Competitive Landscape*, EMECOM Ediciones, Barcelona, Spain, 2006 and Ben Gilad, *Early Warning*, AMACOM, New York, 2004.

24. Gilad, *op.cit.*, p. 183.

before the division was sold, it provided an early warning on the 1998 economic crisis in Asia as well as the later takeover of one large key competitor, McDonnell Douglas, by another large competitor, Boeing.<sup>25</sup> As the then-head of the process later dryly reported, because of the early warning process, the division was “not surprised...and was equipped to respond quickly” to these radical changes.<sup>26</sup>

## Ethical and Legal Issues

With respect to ethical and legal issues, the late Professor Stevan Dedijer, a CI pioneer, once opined:

*Intelligence today is about using the collective knowledge of the organization to reach an advantageous position in industry. Spying is dying – only idiots resort to these kinds of shady activities. Only companies with an inadequate intelligence capability and with inferior knowledge-acquisition strategies seek to obtain information by illegal or unethical means.<sup>27</sup>*

A major perceptual issue is that to some CI is associated with spying. Spying (or, more correctly espionage) is a crime in every state and most nations. If properly conducted CI does not engage in any criminal activity.<sup>28</sup>

Given that, what are the usual ethical limits on CI collection activities? There are two types: formal and unwritten (or informal).

Most well-run corporate CI programs have a written ethics policy. Many companies just adopt the “SCIP Code of Ethics for CI Professionals”:<sup>29</sup>

- 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 organization, prior to all interviews.
- 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.
- To faithfully adhere to and abide by one’s company policies, objectives and guidelines.

The SCIP Code is aimed at its own members, containing elements that should be limited to the Society’s members. While it is a good place to start, a better way to proceed is to develop a formal policy statement, reflecting a firm’s unique situation and competitive environment. It should be drafted in cooperation with the legal department, be simple and direct, and provide guidance (not merely tell employees to contact someone if they have a question).<sup>30</sup>

The unwritten rules can be the most important. What underlies most of them is fear of embarrassment. CI analysts must not do something that could cause concern for their employer or bring unwanted attention to it. One rule of thumb is “Never do anything that one would not want to see reported the next day in the local newspaper.” Whether or not there is a written policy, the cold facts are that taking some action that hurts an employer’s reputation can put one’s job at immediate risk.

The potential consequences of unethical behavior can be illustrated by the following actual case:

Several years ago one of the largest consumer goods firms in the US (Procter & Gamble), which had a well-regarded CI unit, authorized a research project against a global competitor, Unilever. The details are not precisely clear, but it appears that the first CI firm with which Procter & Gamble contracted then brought in a second group of firms as subcontractors, and some of these subcontractors may, in turn, sub-subcontracted some work to yet other groups. That meant that some individuals working on the assignment were three levels away from Procter & Gamble and its direct supervision. The results were predictably catastrophic: one subcontractor was accused by Unilever of attempting to obtain its trash to go through later. There was no indication that the CI firm had actually acted illegally. Events then moved rather quickly. Procter & Gamble’s CEO flew across the Atlantic to meet with Unilever’s CEO, at his “request.”

25. Gilad, *op. cit.*, pp. 187-91.

26. As quoted in Gilad, *op. cit.*, p. 189

27. David Bloom, “Stevan Dedijer,” *The Guardian*, August 11, 2004, <http://www.guardian.co.uk/news/2004/sep/01/guardianobituaries.obituaries>, accessed 29 September 2011.

28. It must be noted, however, that not all nations and cultures abide by the legal constraints and ethical standards generally governing CI activities in the United States.

29. <https://www.scip.org/CodeOfEthics.php>.

30. For examples of good and bad policies, as well as guidance on drafting a policy, see McGonagle and Vella, *The Manager’s Guide to Competitive Intelligence*, *op. cit.*, 72-86.

Procter & Gamble paid a rather substantial price for its management failures: first was a substantial cash settlement, believed to be at least US \$10 million; second, Procter & Gamble agreed that it would not enter a certain market niche for a period of years, the very niche that was the focus of the CI assignment; third, at Procter & Gamble headquarters, several CI personnel were terminated and a senior CI manager “retired” quickly thereafter; and fourth, Procter & Gamble purged its approved contractor list, removing every firm that was involved in this case, even a CI firm which claimed that it blew the whistle on the misdeeds of others.<sup>31</sup>

Most legal limits on CI address how information is collected. Foremost are the usual legal limits against stealing materials from a competitor. The US Economic Espionage Act of 1996<sup>32</sup> deals specifically with the theft of trade secrets. While there have been many headlines on alleged theft of US firm’s business information by Chinese nationals, the US courts had seen only a handful of prosecutions under EEA, with most of them apparently involving Chinese nationals or businesses.<sup>33</sup>

More broadly, there are state<sup>34</sup> trade secrets laws that have relevance to CI in that they deal with the protection of corporate trade secrets and the consequences for anyone who improperly obtains and uses a trade secret. However, trade secret laws require that the person or company who claims something is a trade secret has a legal obligation to take significant steps to protect it. To put it another way, just because someone puts a stamp on a document that says “trade

secret,” that does not make that document a trade secret, if the individual then hands out several hundred copies of the document at a tradeshow. If legal and ethical CI activities enable a company to recreate independently what a competitor claims is a trade secret, there is not a violation the law.

## Conclusion

In its first 30 years, CI has emerged as a powerful force, providing guidance to businesses and non-profits at both the tactical and strategic levels. As it has grown, it has also changed – moving from a tool of specialists to part of the tool-box of generalists. In so doing, it has moved well beyond its governmental intelligence origins.

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### READINGS FOR INSTRUCTORS

On competitive intelligence in general:

John J. McGonagle and Carolyn M. Vella, *Proactive Intelligence: the Successful Executive’s Guide to Intelligence*, London: Springer, 2012. Written for business people who do not spend full time producing CI.

Herbert E. Meyer, *Real-World Intelligence: Organized Information for Executives*, Friday Harbor, WA: Storm King Press 1991 (New Edition). A classic look at CI, easy to read and digest.

On analysis:

Babette E. Bensoussan and Craig S. Fleisher, *Analysis without Paralysis: 10 Tools to Make Better Strategic Decisions*, Upper Saddle River, NJ: FT Press, 2008. An excellent book on analytical methods, written for the practitioner.

Anne P. Mintz (ed.), *Web of Deception: Misinformation on the Internet*, Medford, NJ: CyberAge Books, 2002. A well-done look at why the Internet is not a real source of useful data.

On using competitive intelligence:

Ben Gilad, *Early Warning: Using Competitive Intelligence to Anticipate Market Shifts, Control Risk, and Create Powerful Strategies*, New York: AMACOM, 2004. A classic on using CI for long-range planning.

Larry Kahaner, *Competitive Intelligence: From Black Ops to Boardrooms – How Businesses Gather, Analyze, and Use Information to Succeed in the Global Marketplace*, New York: Simon & Schuster, 1996. A business reporter’s look at CI in action, using real names and real cases.

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31. Richard Conniff, “Mr. Clean: John Pepper used to run Procter & Gamble. Now he’s revamping Yale’s administration. Can Fortune 500 culture work in the Ivy League?,” *Yale Alumni News*, March/April 2005, [http://archives.yalealumnimagazine.com/issues/2005\\_03/pepper.html](http://archives.yalealumnimagazine.com/issues/2005_03/pepper.html); Andy Sewer, “P&G’s Covert Operation An intelligence-gathering campaign against Unilever went way too far.” *Fortune Magazine*, Sept. 17, 2001, [http://archive.fortune.com/magazines/fortune/fortune\\_archive/2001/09/17/310274/index.htm](http://archive.fortune.com/magazines/fortune/fortune_archive/2001/09/17/310274/index.htm); and confidential interviews by the author.

32. 18 USC sec. 1831 et seq.

33. Robin L. Kuntz, “How Not to Catch a Thief: Why the Economic Espionage Act Fails to Protect American Trade Secrets,” 2013, p. 1, [http://bitj.org/data/articles/28\\_AR/0901-0934\\_Kuntz\\_081413\\_Web.pdf](http://bitj.org/data/articles/28_AR/0901-0934_Kuntz_081413_Web.pdf) and Trade Secrets Institute, Brooklyn Law School, “Cases from the Economic Espionage Act,” <http://tsi.brooklaw.edu/category/legal-basis-trade-secret-claims/economic-espionage-act>.

34. The state laws are usually based on the Uniform Trade Secrets Act, a model law, drafted by the National Conference of Commissioners on Uniform State Laws, dealing with the civil penalties for misappropriation of trade secrets. It has been passed, in one form or another, in forty-seven states, Puerto Rico, and the US Virgin Islands. For additional information, see <http://www.uniformlaws.org/Act.aspx?title=Trade%20Secrets%20Act> (accessed July 31, 2014).

and *Bottom Line Competitive Intelligence*. John has presented competitive intelligence workshops, seminars and training sessions on six continents and has served as an expert witness on competitive intelligence and related topics. He has served in adjunct undergraduate and graduate positions with Lehigh University, DeSales University, and Kutztown University. Mr. McGonagle received the prestigious Fellows Award in 1998 from SCIP and its Meritorious Award, SCIP's highest award, in 2007. He has been a featured presenter at numerous international conferences on competitive intelligence and corporate strategy.

**In the intelligence world, to be able to speak four languages is an asset. To know when to hold your tongue in any one of them — priceless.**



**“Just be yourself” — good advice for only 5% of people.**



**Don't blindly follow heroes. The crowd that follows with admiration would run with the same eagerness if the hero were marching to the guillotine.**



**I won't insult your intelligence by suggesting you really believe what you just said.  
— William F. Buckley, Jr.**

**TRAVEL AWARENESS**

Business and Government travelers have reported their hotel rooms and belongings were searched while they were away.\*

Foreign Security Services have various means of screening incoming visitors and compromising their electronics.

**Know the Risk  
Raise your Shield**

When traveling, **have no expectation of privacy.**  
Always keep **electronic devices** with you.

\*Source: U.S. Department of Justice, FBI

