

'Competitive Intelligence' — a new survival tactic

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Business in the electrical industry is becoming increasingly competitive. Previously, companies selling electrical products could allow the growth of the market to increase their own sales. But markets are now much softer, and so competition is more intense.

To grow in the 1980's means that you will have to get some portion of your sales from your competitors. This article will explain how to find out the information you will need to succeed.

In the 1960's, and to a lesser extent in the 1970's, electrical companies could maintain market share and increase sales volume because their markets were expanding. For many companies in the electrical industry in the 1980's this is no longer a valid strategy. Times are changing rapidly. The Canadian economy has weakened and the electrical markets are now often flat or declining.

With declining markets comes intensified competition. While all companies need to grow, not all will succeed in this quest. Some companies, even in previously secure industries, are going to go out of business, or experience severe sales declines.

There is going to be a shake out in the electrical industry within 10 years. The sales "pie" is going to get smaller. If your slice of this pie is going to increase, you will need to take sales away from your competitor. If you do not maintain or increase your sales, it may be your company that goes out of business while your competitors congratulate one another on your failure.

Competitive intelligence is not the same as industrial espionage. Competitive intelligence is not illegal, or immoral. Competitive intelligence means "the process of gathering information about your competitor from legally available sources".

Consider for example, the electrical cable industry. Of the many major competing firms, selling products which are often direct substitutes for one another, probably only a few companies have an organized competitive intelligence system. Yet their very survival could depend on their ability to understand competitive behaviour and to anticipate new product launches, changes in pricing structure, changes in distribution and so on.

Why, then, would these companies not set up a competitive intelligence system? It has been my experience that many execu-

tives are often overloaded with their regular work and for this reason, are unable to make the necessary time available. Because the survival of a company could depend on gathering competitive intelligence, an increasing number of companies now hire outside consultants to investigate their competition.

The rewards that companies achieve by conducting competitive intelligence are often immense. One of our firm's clients, which manufactures electrical products, discovered that a major competitive threat was looming. By way of acquisition, a competitive company was going to commit vast resources to expand distribution and introduce new products. As a result of this discovery, the client company was able to defend itself in the marketplace. It has succeeded in growing rapidly in the face of extreme competitive pressure.

Recognizing that competitive intelligence is necessary in order to be triumphant, you can now set up your own competitive intelligence system. Just follow the four steps as outlined below:

• Step One: Define Your Information Needs

I usually start a competitive assessment by considering the competitive environment. This includes: which companies compete, who their suppliers, customers and channels are; whether the products are highly differentiated; whether the industry has high fixed costs, or over-capacity; whether there are barriers to entry and exit; and so on.

Next, establish which current (or potential) competitors you intend to investigate. You should now define your objectives for the information search. Do you intend to maintain current sales by following a policy of entrenchment? If so, you need to find out whether your competitor will have the capability of increasing its sales in your most profitable areas or, if you intend to be

aggressive, you will need to find out where your competitor is weakest, and how you can best apply pressure.

When I worked in industry, I followed a simultaneous defensive/aggressive posture that weakened the competition. Our company reduced sales in unprofitable regions, causing the major competitor to leap at the opportunity of increasing its sales. Since we understood that this company was interested more in obtaining sales than improving profits, and had a similar cost structure to our company, we knew that this action would erode their profitability.

Next, you need to define what information you need to obtain. For the electrical industry, perhaps the most important information you will need relates to price/performance data. But you may also need to find out about their marketing strategy, details of research and development, financing, cost structure, organizational chart, and so on. Since business is people, you may want to obtain profiles of key executives. These profiles will detail their performance, history and psychological make-up.

• Step Two: Develop a System and Collect the Data

Set up a binder with the information needs you defined in Step One on the index tabs. Establish clearly who is going to collect each aspect of information, and from where this information is going to come.

Motivate your sales force to report competitive information regularly and in depth. Set up forms and incentives for this purpose. Retain a clipping service. There is a lot of information about your competitors. Often, for reasons of required public disclosure, or corporate prestige or personal ego, individuals will speak out about their company. This is often published, and may be obtained via search procedures in the library, or from a clipping service.

Perhaps your competitor is a division of a U.S. parent. I have sometimes been able to find out more about Canadian companies by doing information searches in the U.S. rather than in Canada! In addition, frequently new products are introduced to Canada after first being marketed in the

U.S. This could provide enough time to defend against their new product launch. In any event, if your competitor has an annual report (Canadian or U.S., or U.S. Securities Exchange Commission form 10K), you should obtain this. There are many other revealing sources of information for the electrical industry, but they are too numerous to mention in this brief article.

• Step Three: Analyze the Data

You now have all the relevant information. You can now decide what your competitor's strategy is, and how you can profit from this knowledge. (If you cannot establish a strategy for your competitor, perhaps your competitor does not have one!)

Importantly, you can now tell whether their behaviour is predictable, and if so, under what conditions. You can have immense power if you know in advance how your competitor will react. Perhaps you can now set them up, and know they will jump at the bait. In any event, you should now be able to find your competitor's weak links.

• Step Four: Strategize

By following the previous three steps, you have developed the information you need to win in these tough times. Now you need "only" develop the appropriate winning strategy, and then to implement it.

The appropriate strategy will depend on many factors, some of which have already been discussed. But I should add, that new product development and innovation is usually a vital strategy for many firms in the electrical industry. (It is harder to shoot at a moving target!)

The 1980's will be a decade with a volatile economy, and flat or declining markets in many sectors. Some segments of the electrical industry will not be able to escape from this overall trend. As a result, competition will increase, and an industry shakeout could occur.

This article first appeared in *Electrical Business*, January 1982. Ian Gordon is a management consultant with Convergence Management Consultants Ltd., www.converge.ca