



# **Competitive Intelligence: Should It Be Permanently Outsourced Now?**

*Current Dilemma and Possible Solution*

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## ***Executive Summary***

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Understanding one's competitors is the most valuable knowledge a company possesses with the exception of customer understanding itself. Historically, many companies have attempted to build an internal competitive intelligence capability albeit not one as large as that focused upon customers. Over the past few years, however, the dramatic reductions in personnel and spending within most companies have jeopardized the vital competitive intelligence capabilities created down through the years. One of the principle culprits in diminishing the overall intelligence capability has been the internet which has provided the justification for internal staff reductions through the delusion of unlimited easily accessible knowledge.

Today, competitive intelligence in most companies has been reduced to two unacceptable alternatives.

- ▶ Inexperienced lower level employees dominated by aggressive senior line managers with strongly held opinions regarding the very competitors their subordinates are monitoring or
- ▶ External consultants brought in to address a specific project without a full understanding of their client company and no long-term investment in the company's success.

This paper discusses "a third way," the outsourcing of the competitive intelligence responsibility to a permanent external third party, which brings a number of advantages such as:

- ▶ External objectivity and a professional stature within the client unattainable by lower level internal employees
- ▶ Full access to the company's longer-term strategies, data sources, and internal functional experts.
- ▶ Vastly superior processes and tools.
- ▶ The freedom to contact customers, suppliers, and other professionals who are generally off limits to internal staff.

*This paper is designed to discuss the current dilemma and its possible solution from a best practices perspective.*

## **The Problems with the Current Internal Competitive Intelligence Capability**

Over the last five years, the competitive intelligence function has been subjected to the same reduction in internal staff that has afflicted most of corporate America. Some of the staff reductions have been justified by real and remarkable improvements in productivity enabled by dramatic enhancements in computer hardware and software. But many of the cuts have gone beyond fat into muscle and even the bone of the organization. As a result, the competitive activity function within most companies has devolved into two organizational patterns:

- ▶ One or two junior-level “clerks” charged with the part-time responsibility of disseminating internet search results to a specified list of internal executives or
- ▶ A dramatically reduced “competitive intelligence department” reporting to the financial or the technical staff groups.

Both of these corporate approaches are fundamentally flawed. The first approach is little more than a Reader’s Digest compilation that provides the delusion of real competitive intelligence without any of the perspective provided by a professional competitive intelligence capability. Most importantly, this Reader’s Digest compilation never becomes

an input into any sophisticated intelligence evaluation process that could provide perspective on the implications of the data by exposing it in 360 degree fashion to various internal functional experts.

The absence of an inclusive, thorough process is exacerbated by the ownership, or one should say, the dominance of interpretation of the data by the very people who are most invested in misinterpreting the data. These are upper middle level and even top managers whose careers and egos require them to press ahead with plans they have developed. The recent Harvard Business Review article regarding the problems caused by executive enthusiasm and self-confidence verging on hubris struck home with anyone familiar with the status of competitive intelligence evaluation in most companies today.

In addition to the fundamental lack of organizational visibility, functional connectivity, and process enhancement, the internal competitive experts often suffer from an obvious and surprising weakness—their virtual inability to talk with anyone outside of their own organization. Competitive intelligence experts all agree on one fact, namely, that the best legally attainable intelligence comes from one’s customers, from one’s suppliers, and from other external

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third-party experts. Unfortunately, most competitive intelligence staffers are simply forbidden to talk to these external sources, and if they were permitted to do so, would be hard pressed to find experts who would tell them the truth.

Competitive intelligence gathering has always been constrained by the natural reluctance of most third parties to deliver “bad news” to a company before it’s too late. Most customers and suppliers, if they communicate a problem at all, will tend to do so in a way that offers reassurance to any questioner known to represent an “injured party”.

This problem is most severe within companies that have reduced their “competitive intelligence” function to “Reader’s Digest” status. A few companies, however, still maintain a dedicated staff of professionals internally who spend full time evaluating the competitive situation. This is especially true in companies that are in technically intensive category where scientific investigation, patents, and regulatory constraints play a major part in one’s competitive capability.

This type of internal capability is excellent as far as it goes, but it too suffers from three problems:

- ▶ The failure to include other functional experts, thereby providing a uni-dimensional view of the importance of any given technical advancement.

- ▶ The lack of a sophisticated process to place any given competitive activity within its larger context.
- ▶ The failure of these internal groups to reach out aggressively to customers, suppliers, and other third-party experts.

Two situations about which we have professional knowledge will shed light upon the status of competitive intelligence gathering today.

In the first case, a highly expert venture capital group had utilized its own set of internal competitive activity experts to evaluate investment in a company manufacturing products sold through mass outlets. Wal-Mart was their largest customer and had been responsible for all of the growth in volume and profit in recent years.

The venture capital group was about to pull the trigger on the investment when they called us because one member of the management group became concerned over the prospective investment’s reliance upon Wal-Mart’s continued good feelings towards the target company. Incredibly, the VC’s themselves had made no attempt to understand Wal-Mart’s attitude toward the company, relying instead upon the assurances of the company that they were a preferred vendor with a large share within Wal-Mart.

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We were asked to provide a perspective on the prospects of the company within Wal-Mart. The simplest and most logical thing to do was to call the Wal-Mart buyers and engage them in a discussion about the company's attitude toward the category, toward the supplier who was the target of the investment, and about Wal-Mart's own private label strategies in similar categories.

Two calls to Wal-Mart buyers uncovered the following:

- ▶ The target company was in fact a valued supplier to Wal-Mart and clearly the leader in its categories.
- ▶ Wal-Mart was determined to increase its private label share in the categories in which the target investment company was competing.
- ▶ Wal-Mart had recently licensed a recognized brand name for their private label use in the categories where the target investment was competing.
- ▶ The buyers had just returned from China where they had negotiated a supply agreement aimed at enhancing Wal-Mart's private label position in the very categories where the target company was competing. This trip and its purpose were totally unknown to the target company despite its "close" relationship to Wal-Mart.

In our practice, such calls to buyers and other customer representatives are commonplace. In this instance, however, the key individuals at the venture capital firm who should have accumulated this information were either unable or unwilling to access it, interpret it or act upon it.

In a separate instance, we had a major client who competed successfully with Procter & Gamble in a technologically intensive category. The client has a highly competent internal competitive activity staff focused primarily in the technological area. This staff has done extraordinary work down through the years. However, its recent efforts have been hampered by two facts.

- ▶ They tend to be single-minded in their focus on technical and scientific issues.
- ▶ They have no process that includes the perspectives of functional experts outside the technical area.

Therefore, the evaluation of P&G tended to focus on its technical capabilities without viewing them within the larger framework of P&G's other capabilities in marketing, sales and distribution. In athletic terms, this shortcoming is similar to evaluating the rushing offense of a football team without simultaneously understanding the passing offense of the opponent. In Procter's case, their technical capability is formidable but no more formidable than that of our client

company. On the other hand, P&G's related capabilities, especially in the distribution and selling areas, are vastly superior to our client such that Procter can use its size and scale with remarkable effect.

Because the company lacked a process to include other functions within the overall evaluation, they failed to develop a response appropriate to the holistic situation in the marketplace.

### ***The Problems with the External Third Party Project Oriented Intelligence Capability***

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The withering away of any internal competitive intelligence capability within most companies leaves them with only one viable alternative in moments of competitive stress, the hiring of an external third party competitive intelligence consultant on a project basis. We are quite familiar with this alternative because it has been our livelihood for the past 15 years.

Competitive intelligence as a profession has unquestionably improved dramatically over the past 15 years partly because of improved search techniques, partly because of improved processes and evaluative tools such as "war gaming" and scenario development. These new developments have been propagated and professionalized through trade organizations such as the Society of Competitive Intelligence Professionals.

If placed under sodium pentothal, however, most competitive intelligence consultants would admit to at least three weaknesses associated with the use of an external third party consultant.

- ▶ Most professionals either lack a process or are not given the time to utilize a process to place any given specific competitive intelligence issue within the broader strategic context of the category or the client.
- ▶ Generally speaking, the use of an external third party does not leave the hiring company or its internal personnel stronger, wiser, or with greater evaluative acumen after the short term project is over.
- ▶ The third party professional rarely gets a second opportunity to leverage the information collected during the first project for the longer-term value of the client company.

The normal mode of operation is this. The competitive intelligence professional is hired by a company because of a serious concern that must be addressed on a relatively short timetable. The consultant focuses single-mindedly on the narrow issues described in his project deliverable, performs the study, delivers the results and leaves. The hiring organization is not strengthened and the consultant's own knowledge of the market situation is rarely called upon a second time for the benefit of the client.

The failure to install a process that puts the immediate competitive threat within its broader strategic context or leave behind an empowered organization makes this approach highly inefficient to say the least.

*There is a better way.*

### ***A Third and Better Way: Outsourcing Competitive Intelligence***

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Some companies are beginning to realize there's a better way to handle their competitive intelligence needs: outsourcing. That's right. The same trend that is accelerating throughout American business relating to the transference of certain tasks to external experts is now coming to the competitive intelligence function.

The reasons for outsourcing CI are the same as those for out sourcing other functions such as IT, human resources even manufacturing. The company who outsources gets a higher quality service at a lower cost primarily because of the economies of scale for the external company and that company's significant advantages in hiring and keeping expert employees in the outsource function.

Competitive intelligence is no different. Companies can gain access to very experienced individuals with a lifetime of contacts who can be brought to bear on the company's needs at a much lower cost because the outsource company can amortize its costs over several non-competitive clients. But the generic advantages of outsourcing competitive intelligence are exceeded by the specific advantages associated with the unique current problems of competitive intelligence discussed above. Specifically, the outsourcing of competitive intelligence brings the following advantages.

- ▶ A process that can bring to bear all of the relevant data and organizational skills against the larger strategic needs of the company. The lack of an ingrained rigorous process is one of the major disadvantages of both of the current approaches to competitive intelligence gathering. Neither of the current alternatives insures all of the company's indigenous functional strengths and data are brought to bear against the short- and long-term competitive issues

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- ▶ The process helps create a larger strategic context into which the competitive data is placed. Both of the current approaches often fail to place a specific competitive fact or activity within its larger context. For example, most competitive intelligence focuses upon the threats to the company represented by specific competitive activity, but at least 50% of the time, a competitive act if properly understood within its context can offer an opportunity for the company rather than a threat. The mindset existing within both of the current approaches to competitive intelligence tends to focus almost exclusively on threats and not upon opportunities. The competitive intelligence professional will not make this error.
- ▶ Outsourcing competitive intelligence permits and even encourages the aggressive contacting of external sources that are almost always the superior sources for competitively valuable data. The current internal method of capturing competitive data generally discourages contact with outside experts except for the rather dry and often unrewarding external data available over the internet. Everyone practicing competitive intelligence understands that interviewing live human beings permits a flow of questioning from the source all the way to its ultimate implications. Outsourcing competitive intelligence presents no barrier to the ethical collection of data from external experts.
- ▶ Building a longer-term competitive intelligence capability is one of the major advantages of outsourcing. Having a long-term relationship with an external third party consulting resource means that that resource is available to build a larger awareness capability throughout the company who contracts for its services. The competitive intelligence professional creates training programs and internal seminars to insure that all of the company's functions are sensitized to the competitive environment.
- ▶ Lastly, competitive intelligence professionals can help in the most critical aspect of the intelligence function, and that is evaluating the implications of the data. Too often, competitive intelligence activities stop with the mere collection and presentation of the data without passing that data through an analytical alembic that can distill the information into understandable implications leading to meaningful action in the marketplace.

At Eaton & Company, we're in the business of providing an outsourced competitive intelligence capability. We have the tools and processes to provide an immediate and permanent enhancement to company's marketplace intelligence. The time to consider outsourcing has come.

## ***About Eaton & Company, Inc.***

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Eaton & Company was established in 1985. We specialize in the following aspects of your business:

- ▶ Marketing and Trade Strategy Development
- ▶ New Market/Product Entries
- ▶ Competitive Assessment
- ▶ Due Diligence
- ▶ Sales Effectiveness/Forecasting and Account Planning

Our client list includes Fortune 1000 companies.

Eaton & Company can help you grow through identification and analysis of new markets and product innovation. We will also help streamline your operation through silo-breaking/multi-functional team creation process.

Our Products/Services include:

- ▶ New market development and creation of distribution network.
- ▶ Analysis of market/product opportunities with an emphasis on hard-to-get and hard-to-evaluate data.
- ▶ Category management for the packaged goods categories.
- ▶ Integrated data sharing and multi-functional team creation process between various departments or SBU's.
- ▶ Search for local distributors or suppliers in new markets.
- ▶ Benchmarking/Competitive assessment.
- ▶ Training staff to adjust to foreign markets/countries or corporate cultures.

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