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## Tough Times and the Competition: Making a Case for Competitive Intelligence

The global recession has no doubt cost several CI professionals their jobs, and is causing many others to re-think their career prospects going forward. Still, despite companies' propensity to cut back reflexively on costs, one would think that the times also create an even greater need for market and competitive intelligence.

Consider the following. The big consultancies, which have spent much of the recession churning out commentary, analysis, and strategy ideas to stay in touch with their clients (and keep their talent gainfully employed), have recently produced several valuable insights for those of us who work with intelligence and business strategy. For example, the Economic Conditions Snapshot for February, 2010 in The McKinsey Quarterly shows that companies are feeling more optimistic about growth again, especially in the developing world, where the recession only temporarily dampened aggressive annual growth.<sup>1</sup> When McKinsey asked 1,467 global executives what steps they planned to take over the next twelve months to continue adjusting to new economic conditions, "introducing new products or services to gain market share from weakened competitors" ranked second after "increasing productivity" and slightly ahead of "reducing costs" and "managing pricing." Indeed, the number of respondents who answered positively as to whether this step would lead to an expected change in profits in 2010 versus 2009 was nearly double, while expectations of more profit from increased productivity and managing costs and prices remained roughly the same.

This would seem to tell us that executives who are seeing growth opportunities again are also viewing the recession as a way to further cull their industry herds. It would also seem to say that weakened companies had better be watching out; their more robust competitors are planning to come after their market share.

This, in turn, would seem to put CI front and center for corporate strategies on both sides of this equation, wouldn't it? For the hunters, the targets will be the weakest and most encumbered by the recession. For the hunted, the alarm should be sounded about the leanest and meanest in the competitive set, and action to evade them should be taken now. This is "Red Ocean strategy" time, and CI has always been a classic Red Ocean tool. Is your company paying enough attention?

In the meantime, the mystery of trying to understand and anticipate competitors also seems to be clearer than many executives think—another reason why CI should be front and center as a strategy tool. Consider McKinsey's findings in another global survey aimed at gaining insight into how companies understand their competitors.<sup>2</sup> For example, when initiating a new strategy:

<sup>1</sup> Economic Conditions Snapshot, February, 2010: McKinsey Global Survey Results, The McKinsey Quarterly

<sup>2</sup> McKinsey Global Survey Results: How Companies Can Understand Competitors' Moves, December, 2008, The McKinsey Quarterly; 1,552 respondents.

- Most companies don't change direction often—82% follow logically along their existing strategy path. Furthermore, only 29% said their companies had actively searched for a new strategy in the last five years.
- When implementing a new strategy, only 23% of companies were able to introduce it to the market without warning.
- Those that are most likely to launch in a new direction are those that are outperforming others financially.
- Most take an average of 20 months to launch a strategy—7 months to decide; 13 months to implement it.

Let me see if I got this right. In other words, 4 out of 5 companies in a typical competitive set are likely to do something they've done before. That should be pretty easy to follow. Only 1 out of 5 is likely to do something new, and those companies are highly likely to be the ones that are doing much better financially than the larger competitive set. That should be pretty easy to figure out, too. Moreover, the average company's new strategic initiative is likely to take up to 20 months from inception to execution—all nicely timed to its strategic planning cycle. That makes it a trifecta of things that should be pretty easy to figure out.

These results tell us that both the focus and timing of most companies' strategic moves are eminently foreseeable.

Next, in a survey of 1,825 global executives conducted in April, 2008 on how companies respond to competitors, McKinsey Quarterly<sup>3</sup> reported that:

- With regard to an innovative move by a competitor, only 23% of respondents said they **learned** about it with enough time to plan a response before it hit the market. When the move was a price change, only 12% agreed. 77% and 88%, respectively, learned about the move too late to preempt it or when it had already hit the market. These results clearly suggest that CI efforts at most companies are not very effective.
- Equally interesting was that most companies also **react** slowly—only 13% and 14%, respectively, responded to an innovative move or a price change by a competitor before or when the move hit the market. This effectively allows the first action to have initial unchallenged impact in the market.

Moreover, when assessing the kinds of moves companies make in response to a competitor's action, McKinsey found that:

- Most companies only assess up to three options and don't look forward beyond two years
- Most respond with the most obvious counteraction—a price cut is met with a price cut.
- Most try what they did last time.
- Most don't think beyond one countermove.

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<sup>3</sup> How Companies Respond to Competitors: A McKinsey Global Survey, The McKinsey Quarterly, May, 2008

Once again, all I can say is “wow”...these results should make CI both easier and more necessary. Easier since the typical company’s strategic range and competitive response pattern seems very predictable and slow. More necessary because regardless of what stage the global recession in your regions is—moving nicely into healthy growth, or sensing a much more cautiously optimistic timeline—in either case, many sectors are set for a re-ordering again as the strongest cull out the weaker.

### **Seeing this in Action**

I had the opportunity to see these kinds of results in action when working with a leading consumer products company earlier this year. This company, known for the impressive success of its global strategy of being number one, two, or three in each segment in each market, has a great reputation for its detailed understanding of the customer base.

True to form, the project teams I worked with had substantial insight into the segmentation, targeting, and positioning they would need, but they had given little to no thought to the likely competitive response their strategies would provoke. Moreover, in each market, they faced strong and established incumbents that would certainly not just stand by and watch share be taken from them.

After walking the teams through the findings described above, I spent time with each of them on how to gather and analyze the appropriate competitive intelligence necessary to gain a strong, defensible grasp on their competitors’ likely responses. Once that was done, we then plotted out how their company, in turn, could begin to create more pre-emptive or quickly responsive strategies.

In these kinds of “Red Ocean” plays, there is simply no excuse for not leveraging the competitive strategy analysis so strongly indicated in the McKinsey findings.

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