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It has been more than four years since my article, “Industry Risk Management – CI Next Step” was published in this magazine (May–June 2001). At the time, I myself did not realize its significance. It was not the editor’s selection for the cover article of that issue. (The cover was “Why Retailers Fail,” an interesting article in its own right.)

Looking back, this piece had a wide-reaching effect on the competitive intelligence profession. Some of these effects are very gratifying—at the SCIP conference in Orlando, not less than four pre-conference and post-conference workshops (plus additional general sessions) are fully dedicated to strategic early warning (SEW), the terminology I used in that 2001 article to describe the future I was seeing for our profession. Some of these workshops are taught by former students of mine (adding to my sense of pride), some by consultants who picked up the concept and are diffusing it.

By measures of diffusion of innovations, this concept reached the increasing slope of the growth curve extremely fast. However, if practitioners are not careful in how they attempt to implement it, it may die as fast.

In the four years since I published my model, I have been involved with several Fortune 500 companies – spanning industries as diverse as pharmaceutical, financial, energy, and high tech/manufacturing – creating and implementing variations of strategic early warning. I have found it far from easy to implement, but very gratifying when it is successfully done. This retrospective piece aims at conveying some of the

lessons I have learned and reiterating some of the messages in the original article that might have been lost in the diffusion of the concept and in some unfortunate quick-success “formulas.”

NOT SAME OLD, SAME OLD: DIFFERENT

Perhaps the most important caveat for trying a move into strategic early warning is that it was never meant as a “spicing up” of old competitive intelligence. There are several inherent contradictions between the two, contradictions that make some quick and easy strategic early warning “add-ons” bound for failure. To understand that, consider the following.

Michael Porter defines strategy as doing something different, or *differently*. On the other hand, he defines operational effectiveness as doing same activities as others, just better – faster, higher quality, less costly, etc. This unique concept of strategy, not clearly understood or universally adopted in professional managerial circles, applies to the internal strategy of the competitive intelligence manager as well. Doing strategic early warning is not doing competitive intelligence with “a bit more strategic” focus. While pushing our intelligence professionals to become more strategic is always worthwhile, what some experts fail to understand is that it conflicts with the demands of traditional competitive intelligence.

The most obvious conflict is the emphasis on competitors. If one closely monitors competitors, the first early signs of strategic change will be divulged to one through the eyes of a competitor. The discipline of strategic early warning calls for *direct* observation of early signs of the underlying change drivers in any given industry.

For example, signs of changing characteristics and therefore bargaining power of the buyers of one's products or services should be on the radar of a strategic early warning process years before competitors identify and act on this same change driver. Competitors' actions are often the reaction to underlying changes that pose tremendous opportunities (and threats). Competitive intelligence's traditional charter of tracking competitors' activities will therefore mean always being late in noting weak and ambiguous early signals.

Another conflict comes with the mission of competitive intelligence as contrasted with the mission of strategic early warning. Some consultants advise intelligence managers to define their mission according to the clients they serve. That is good advice with an unfortunate consequence: if you adopt it, you will never partake in a real strategic early warning system. The traditional clients of competitive intelligence expect CI to deliver CI – tactical, competitor-focused material. My strategic early warning process calls for the competitive intelligence manager to define the clients according to the mission he or she undertakes. The mission of SEW is to minimize strategic surprises.

Adopting a strategic early warning *modus operandi* calls for targeting top management and anyone directly or indirectly responsible for strategic risk management at the business unit (i.e., industry) level. A related common mistake is to regard business units as more tactical than corporate-level management. This mistake reflects confusion about the meaning of strategy. Corporate strategy is a very different animal than business strategy. The correct distinction, as stated above, is industry level versus product (or service) level.

For global companies with distinctly customized local strategies, the correct level may be country-specific, depending on the nature of the risks and opportunities in the industry. Under no circumstances, however, can one conduct a meaningful strategic early warning analysis on the corporate level of a diversified conglomerate (while one can conduct competitive intelligence activities at the corporate level). This plethora of misguided advice regarding the mixing of competitive intelligence and strategic early warning stems from a basic misunderstanding of the nature of a strategic early warning system and of how it must be structured in order to deliver on its promise.

NOT THE SAME PLANNING, EITHER

The shift of attention from competitors to industry is such a significant principle in strategic early warning that any attempt to use the same old competitive intelligence tools

is bound to fail, too. My friend Jan Herring popularized the use of key intelligence topics (KITs) in business. More than anyone else, Herring is responsible for systematizing and institutionalizing the competitive intelligence function. Unfortunately, he has many followers who advise intelligence practitioners to apply KITs rather indiscriminately.

While Herring's key intelligence topics are an indispensable tool of the competitive intelligence manager, they are the antithesis of strategic early warning activities. KITs define management concerns. An intelligence function should be acutely aware and diligent in monitoring management concerns. Undoubtedly, as Herring states clearly in his courses at the academy and his writings in this and other publications, early warning is one of the most important roles of a competitive intelligence function. But early warning should not be confused with *strategic* early warning. *Strategic* early warning regards what is currently *in focus* of management as, at best, a potential indicator of where to look, at worst an irrelevant piece of input. The reason is that SEW aims to look at the issues management is ignoring or of whose implications management is not yet fully cognizant.

While an effective competitive intelligence function, such as the one ran by Herring for many years at Motorola, could and would discover early signs of risks and opportunities emanating from competitors' activities, the essence of strategic surprise is that it springs from left field, out of management focus, and mostly not from existing competitors. One is justly reminded of my blind spots theory, of course, but at times it is a matter of priorities, not blinders.

Management is rightly focusing on more immediate and clear signals. The strategic early warning process focuses on (or I should say, elevates *alertness* to) weak, ambiguous, early signals, sometimes years before management is due to place them on its radar screen. To mix the two *modi* amounts in practice to not doing strategic early warning, because the pressures of management focus can be very intensive and very time-consuming.

NOT THE SAME ANALYSIS

I quickly admit that I have some reservations when it comes to what are commonly referred to as "analytical techniques" in competitive intelligence, and that this overall reservation becomes a real discomfort when it comes to strategic early warning. An approach that recommends applying a portfolio of "techniques" to analyzing competitors and competitive events – such as financial ratio analysis, strengths, weaknesses, opportunities, and threats (SWOT), or other relatively easy "analytics" – ignores the fact that *competition never occurs in a vacuum*.

Ad hoc analysis of bits and pieces of competitors' behavior is at best of limited value, and it is bound to leave the competitive intelligence manager, often a lone person

with this title, forever seen as an information specialist rather than an expert on the company's business. This is a sure way to kill one's advancement options into business management. The same ad hoc approach applied to strategic early warning will lead to a complete and utter waste of effort.

Strategic early warning requires the big picture, with two truly analytical *frameworks*, as opposed to "techniques": one defines the company's strategy, and the other, the structural elements in the industry this strategy addresses (successfully, or less so). This broader canvas allows for the understanding of signals in context – the most crucial tenet in doing strategic early warning.

Answering the question "What is your company's strategy?" is far from trivial and requires a holistic understanding of positioning and activity chains. None of that interpretation in context comes out of disparate techniques or "digestible chunks," as I heard one expert suggest. Similarly, scenarios (which my original article recommended as a useful methodology for strategic early warning work) must be used cautiously. They must be related back to the analytical framework, or they become an exercise in interesting but fruitless imagination. Business is not about imagination alone, but about economic forces and their bottom-line consequences. The difference between (scenario) brainstorming and strategic early warning is the discipline of strategic business analysis.

NOT THE SAME COLLECTION

Perhaps the only activity carried out by traditional competitive intelligence that carries over to strategic early warning is collection. Both require the use of internal and external networks. However, my implementation experience shows that subtle differences emerge here as well, and these differences should be reckoned with when designing an optimal strategic early warning process.

Competitive intelligence collection asks either very specific questions such as "What is the competitor's cost? What are the specifications of its new upcoming product?" or very general and ill-defined ones such as "Tell us everything competitors are doing." This latter inquiry does not define which competitors' actions are important and which are not.

Strategic early warning asks two types of open-ended questions, which are both analytically driven. The first, a category of questions called *scenario-directed analysis* (SDA), is exemplified in this sample question: "What could transform the suppliers' power in our industry?" The second type falls into a category I call *indicators*, which are post-scenarios derivatives: "Tell us when you see or hear or read anything about HSA passing the 25 percent employers-adoption mark." This question is an example of a real result of a strategic early warning analysis carried out in the health care insurance industry, and it relates to a specific scenario in which a change driver, in this case a combination of

regulatory and social drivers, can potentially change future buyers' behavior.

Strategic early warning works well with limited and clearly defined "gatekeepers" who agree to serve as focal points for monitoring scenario-directed analysis and indicators-class questions. Competitive intelligence works best with a broader network of "eyes and ears," especially field people. Nevertheless, both can rally the troops to provide insights into a changing reality.

While competitive intelligence-type information is more intuitively clear to network members, strategic early warning-type questions are as important (if not more) to ask. By their nature – looking at left field – one never knows which source is more likely to identify early signs. A secretary walking into Costco (I assume top executives do not shop there) may bring back an interesting indicator of a significant change in distribution channels used for some goods or services. Similarly, if the music industry had a formal strategic early warning process, a young Internet-savvy employee might have alerted the system to pay attention to file-sharing technology back in 1996, and noted how this technology better served an overserved segment (people who wanted unbundled tracks but had to buy and pay for much more – the whole collection on CDs).

AS LONG AS YOU LIVE UNDER MY ROOF . . .

To read experts' advice on how to start and run a competitive intelligence function, one would think it is both easy and intuitive. After all, all you need is to create demand for your products, get cooperation from internal clients and sources, do a good job of showcasing some early successes, and off you go on your way to glory.

The truth, of course, is anything but. The competitive intelligence job is often frustrating, cooperation is impossible to sustain, clients are demanding but unwilling to pay and often have no idea why they need the information, you spend 75 percent of your time fielding unrelated management questions and chasing projects but seeing little feedback or direct results of your involvement, and none of the wonderful "five steps to a great competitive intelligence function" works in real life. I am quite often exasperated reading some of those trivial recipes.

Imagine imposing a strategic early warning process on this already shaky foundation. One conclusion I hope readers reach at this point is that given the conflicting nature of strategic early warning's mission, focus, analytics, and modus operandi with those of competitive intelligence as classically defined, the coexistence of the two under the same roof is impossible. That does not mean competitive intelligence practitioners are not part of a SEW process. Au contraire – they are pivotal to this process. It does mean, however, that strategic early warning can never be just "a part" of the competitive intelligence house, and therefore *it is not a mere cosmetic "add-on" to the function.*

You, as the competitive intelligence manager, must understand that strategic early warning is bigger than you. The SEW process belongs to the whole organization as the most crucial component of its long-term risk management activities. Since a failure of a strategic warning system to affect timely management action means disaster to the company (to the point of its elimination from the market), the heart of my SEW process model is an early warning *team*, not an individual. This team is cross-functional and *extra-functional* (it does not belong to any particular function), and its composition determines the success (or failure) of the process. The team is sanctioned by the top executive team and reports to the top executive team in both regularly scheduled sessions and ad hoc on an as-needed basis.

If you are lucky enough to be in a company implementing a true strategic early warning process, you will wear two *distinct* hats. On the one hand, you will do your traditional competitive intelligence – a tactical, management-directed quest for information on competitors. On the other hand, every so often (once a week or once a month or once a quarter, depending on the stage the process has reached) you will head into a room and take part in one of the most fascinating exercises of business analysis – attempting to identify strategic risks and opportunities *before* they are obvious to everyone.

When you march into this room you forget about competitors' focus. You enter bearing a dual responsibility – being a valuable member of the team's brain trust, *and* the head of the monitoring leg of the whole SEW process, in charge of bringing before the team the latest signals from the network's response to the team's scenario-directed analysis and indicators-derived questions. As long as you can live well with a mild multiple personality syndrome, you'll do just fine.

From a selfish perspective, you may initially find strategic early warning to be intimidating. The lack of control (once it is on its way, the process takes a life of its own), the direct interaction and ample attention from the top (and actually, the whole organization), and the much more analytical work may turn off some competitive intelligence professionals, who are used to more information-intensive tasks. Yet strategic early warning can offer you a glimpse of the organization's inner working, a chance to see strategic intelligence analysis directly turned into management recommendations and eventually strategic management actions (sometimes on a grand scale!), and an opportunity to shine at the highest level.

It is not a coincidence that two of the competitive intelligence managers who started strategic early warning systems with me moved, after a few years, into full-time senior strategy jobs. The transition is as natural as moving from McKinsey into a CEO position: you learn everything there is to learn about the second role while in the first one.

CONCLUSION

After four years of implementing strategic early warning processes in a variety of settings, I have come to the conclusion that more than changing the competitive intelligence function, it changes the CI manager. Naturally, I am biased. At the academy's public training affiliate, the Fuld-Gilad-Herring Academy of Competitive intelligence, I train our devoted crowd in analysis, and I have been known on occasion to imply delicately that competitive intelligence is about superb business analysis much more than it is about "intelligence" expertise.

That does not mean former government intelligence agents cannot become superior competitive intelligence managers! It means that intelligence experts without business sense or acute analytical minds will not do too well, regardless of their years in the CIA or KGB, Mossad or MI-6 (is it MI-6 or is MI-6 a highway near Heathrow? I am never too certain).

When it comes to strategic early warning, this distinction is *even sharper*, and I am going to be even less diplomatic than usual. Not every competitive intelligence manager can become involved in a strategic early warning process, or turned into a strategic risk analyst (as I called the new profession in my original SCIP magazine article) who interprets and extrapolates ambiguous events.

Strategic early warning requires the competitive intelligence analyst to go "business" full throttle. No longer is it enough to pass on competitors' data and make a few references to ad hoc lightweight "analyses." You must steep yourself in studying the strategy literature and understanding the economic (i.e., business) principles underlying the working of your industry. It is a growth experience, and there are neither shortcuts nor easy roads to success. But it is a most rewarding journey.

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