Competitors, Customers & Technologies Are Complex Interdependencies

Intelligence is About Seeing Clearly Emerging Market Phenomena
Laurie Gonsowski

Project Designation
“SENTINEL”

Primary Orientation on Producing Impact Analysis for Sector Intelligence Communities in Healthcare & Technology
Jay Hale

Project Designation “RECONG2”

Primary Orientation on Intelligence Community Management Supporting Impact Analysis for Sector Intelligence Communities in Healthcare & Technology
Three Intelligence Trends

- **Organizational Acculturation** – Everyone in the Firm is a Virtual Member of the Intelligence Team

- **Corporate Governance** – Board-level Priority for Ensuring Reliability of the Earnings Forecast (Vioxx/Celebrex Impact, SarbOx 402, etc.)

- **Disruptive Innovation** – Predicting Outcome of Competitive Battles based on Predictable Product Strategy Dynamics
CI Has Always Been About Better Decision-Making

• Strategic Decisions
  – What business are we in and where are new opportunities for growth?

• Operational Decisions
  – How do we structure those business units to most effectively compete for and win market share?

• Tactical Decisions
  – Which customers are available to us and how can we convince them to select us over functional equivalents?
Traditional CI follows a disciplined process for information collection and analysis.
Porter’s Five Forces Model

- Threats of Entry
  - New Forms

- Bargaining Power of Suppliers
  - Threat of Forward Integration

- Market Rivalry by Traditional Competitors

- Bargaining Power of Buyers
  - Threat of Backward Integration

- Threat of Substitutes
Key Intelligence Topics (KITs)

Process of Interactive Dialog with Decision-Makers through KIT Interviews; Consists of 3 Protocols w/Subtle Differences:

- Strategic Decisions/Issues
- Key Marketplace Players
- Early-Warning Topics
Research Collection Sources

Where does the information come from?

1. Primary Research
   We may share customers, prospects and suppliers who can be interviewed.
   Every company has knowledgeable employees with loose lips.

2. Secondary Research
   Companies release information for promotional, image and regulatory purposes.

Information is exchanged everywhere money is exchanged.
# Analysis is Key

## The Difference Between Data and Intelligence

| Data: Scattered bits and pieces of facts, observations and rumors | 2001: “The D&B report told us that the competitors plant had 100 employees.”  
2004: “One of our salespeople just passed by the competitor’s plant and spotted only 30 cars in the lot.” |
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Information: A pooling of these bits of facts, observations and rumors</td>
<td>“Based on the D&amp;B and the salesperson’s report, it appears the competitor has lost business.”</td>
</tr>
<tr>
<td>Analysis: Distilled information</td>
<td>“After gathering more operational information and running a side-by-side profit &amp; loss analysis, it appears the competitor has become highly efficient. It exceeds industry standards and has become a best-in-class facility.”</td>
</tr>
<tr>
<td>Intelligence: The insight that will allow you to make an informed decision</td>
<td>“The competitor would make a good acquisition candidate. Its lean &amp; mean structure would fit well with our current operations.”</td>
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</table>
Two Fundamental Analysis Tools

**SWOT Analysis**

- **Internal**
  - Strengths
  - Weaknesses

- **External**
  - Opportunities
  - Threats

**Core Competencies Matrix**

- **Existing**
  - How to protect and extend the franchise?
  - Improve positioning with better leverage?

- **New**
  - Participate in the future?
  - Redeploy or redefine to create new products?
# Impacts on Planning & Execution

## Competitors’ Plans and Actions

<table>
<thead>
<tr>
<th>New Forms of Competition</th>
<th>Indirect Competitors</th>
<th>Direct Competitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td>Y</td>
<td>Z</td>
</tr>
<tr>
<td>P</td>
<td>Q</td>
<td>R</td>
</tr>
<tr>
<td>A</td>
<td>B</td>
<td>C</td>
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</tbody>
</table>

## Your Company’s Plans and Execution

1. Vision and Grand Strategy
2. Strategic Plans
3. Operational Projects and Programs
4. Tactical Execution

## Other (More-or-Less) “Uncontrollables”

<table>
<thead>
<tr>
<th>Government and Regulatory</th>
<th>The Economy</th>
<th>Technology</th>
<th>Market Trends</th>
<th>Industry Rationalization</th>
<th>Other Unknowns</th>
</tr>
</thead>
</table>
“Strategic Intelligence”

### The Strategy Square

| Defensive          | Offensive
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Market Leaders</td>
<td>No 2 or No 3</td>
</tr>
<tr>
<td>Attacking themselves with new ideas</td>
<td>Avoiding leader’s strengths</td>
</tr>
<tr>
<td>Blocking competitive moves</td>
<td>Attacking leader’s weaknesses</td>
</tr>
</tbody>
</table>

| Flanking          | Guerilla
<table>
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<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>New Players</td>
<td>Small Players</td>
</tr>
<tr>
<td>Moving into uncontested area</td>
<td>Finding market small enough to defend</td>
</tr>
<tr>
<td>Element of surprise</td>
<td>Prepared to bug out at moment’s notice</td>
</tr>
</tbody>
</table>

- **Principles of Defensive Warfare**
  - Only the market leader should consider playing defense.
  - The best defensive strategy is the courage to attack yourself.
  - Strong competitive moves should always be blocked.

- **Principles of Offensive Warfare**
  - The main consideration is the strength of the leader's position.
  - Find a weakness in the leader's strength and attack at that point.
  - Launch the attack on as narrow a front as possible.

- **Principles of Flanking Warfare**
  - A good flanking move must be made into an uncontested area.
  - Tactical surprise ought to be an important element of the plan.
  - The pursuit is just as critical as the attack itself.

- **Principles of Guerilla Warfare**
  - Find a segment of the market small enough to defend.
  - No matter how successful you become, never act like the leader.
  - Be prepared to bug out at a moment's notice.

-- Jack Trout
Growth Vector Analysis

- Growth Vector Analysis (GVA) reviews the different product alternatives available to the firm in relation to its market options, not already being pursued by competitors. Four complimentary characteristics are used for defining common threads of strategy:
  - **Product-Market Scope** specifies particular industries to which a firm confines its position.
  - **Growth Vector** indicates the direction a firm is moving relative to current product-market posture (market penetration, market development, product development and diversification).
  - **Competitive Advantage** defined as particular properties of individual product markets conveying a strong market position.
  - **Synergy** is the combined effect on the firm’s resources that is greater than the sum of its parts.

<table>
<thead>
<tr>
<th>Present Products</th>
<th>Improved Products</th>
<th>New Products</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Existing Market</strong></td>
<td>Market Penetration</td>
<td>Product Extension</td>
</tr>
<tr>
<td><strong>Expanded Market</strong></td>
<td>Market Extension</td>
<td>Market Segmentation / Product Differentiation</td>
</tr>
<tr>
<td><strong>New Market</strong></td>
<td>Market Development</td>
<td>Product/Service Extension &amp; Market Development</td>
</tr>
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Evolutionary Parallels of Intelligence in Business & in Government

• Intelligence in Business Originally Evolved from the Transplantation of Government Techniques to the Private Sector
• Accelerated with the Privatization of Gov't Sector Intelligence Professionals after the Cold War ended
• Reaction to the New Threat & Surprising Rise of Low-Cost Asian Competitors Challenging U.S. Post-WWII Industrial Hegemony
• Focused on Decision and Policy Support, Transplanting Process & Nomenclature (KITs/KIQs, the Intelligence Cycle, etc.)
• But the Parallels Don't End There...
Cognitive, Policy & Operational Bias Among Intelligence Leadership
The Apparatus Failed to Evolve

- Unfortunately, New Threats (al Qaeda) Emerged on the Geopolitical Stage in the Vacuum of America's Return to International Dominance After the End of the Cold War
Connections in Emergent Phenomena

Figure 3 - All Nodes within 2 steps / degrees of original suspects
Reforms to Create Equilibrium

• Similarly, in Business, Corporations which had placed too much Emphasis on Defensive Competitive Risk Management found themselves Ill-Equipped for a Market Driven by Offensive Opportunities for Innovation

• The Resulting Shift in Emphasis from a Focus on Polar Extremes to Equilibrium & Mode-Switching between Incisive and Decisive Ends of the Intelligence Continuum
Duality Continuum of Intelligence is **Both** Decisive & Incisive for Tasking, Sensing & Interpretation

<table>
<thead>
<tr>
<th>Decisive</th>
<th>Incisive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frame of Reference is the Decision, Less Trend-Dependent</td>
<td>Scanning for Trends, there is no “Decision” to be made</td>
</tr>
<tr>
<td>Framework for Current Analysis</td>
<td>Framework for Interpretation</td>
</tr>
<tr>
<td>Compares Options &amp; Outcomes</td>
<td>Focus on Implications for Reader</td>
</tr>
<tr>
<td>Recommendations and Trust</td>
<td>Recognize “Pattern Vector” History</td>
</tr>
<tr>
<td>Top-Down Imposition</td>
<td>Bottom-Up Exposition</td>
</tr>
<tr>
<td>Driven by Identifiable Issues</td>
<td>Driven by Weakly Signalled Trends</td>
</tr>
<tr>
<td>Decision &amp; Action vs. ‘Nariyuki’</td>
<td>Outcome is Observation</td>
</tr>
<tr>
<td>Factual &amp; Hypothetical</td>
<td>Emergent &amp; Theoretical</td>
</tr>
</tbody>
</table>
## Different Missions, Different Approaches

<table>
<thead>
<tr>
<th>Generalist</th>
<th>Specialist</th>
<th>Investigative</th>
</tr>
</thead>
<tbody>
<tr>
<td>In a Hurry</td>
<td>Slower Production</td>
<td>Very Slow, Curious, Historical</td>
</tr>
<tr>
<td>Lots of Output, Less Analytical</td>
<td>Less Output, More Analytical</td>
<td>Little Output, Highly Analytical</td>
</tr>
<tr>
<td>Agenda Driven by the Publisher</td>
<td>Agenda Driven by Contact Network</td>
<td>Questions Official Positions, Listens to Nonspeakersmen</td>
</tr>
<tr>
<td>Little Knowledge of Subject Matter</td>
<td>Lots of Subject Matter Knowledge</td>
<td>Operates Outside Routine Agenda of the Publisher</td>
</tr>
<tr>
<td>Seeks Volume of Public Interest</td>
<td>Seeks Explanation of the Subject</td>
<td></td>
</tr>
</tbody>
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**Aurora WDC**  
**Competitive Intelligence for the Need to Know Enterprise**  
**www.AuroraWDC.com**
The Insight Method

- Take Nothing at Face Value
- Get to the Facts at the Heart of an Issue
- Explain Difficult Concepts, Don’t Write Around It
- Speak to As Many Relevant People as Possible
- Use Simple, Obvious Questions to Open Subjects
- Don’t Echo Main Source, Find Other Views
- Every Company, Person & Issue Has a History that Drives Behavior Today
- *Sunday Times*
Ideal Analyst is More Investigative Journalist than Secret Agent

- e.g. Maria Bartiromo (CNBC)
  - Argument/Idea Evangelist
  - Entrepreneurial Passion
  - Quick Study with Intense Curiosity
  - Instinctive but Empirical
  - Project/Deadline Manager
  - Librarian/Information Manager
  - Hard-Core Interviewer
  - Pattern Recognizant
  - Great Communicator
  - Persuasive Position Advocate
Process of Predicting Industry Change

Signals of Change

Likely Outcome of Competitive Battles

Strategic Choices Influencing Success
Success Breeds Complacency

“It is a classic conundrum for business titans: How much money and attention should be focused on a new, but growing, operation that is far less profitable than the core business?”

- Prof. Clayton Christensen, *The Innovator's Dilemma*
Consumers “Hire” Products to Do “Jobs” for Them

Concentrate Less on What Customers “Want” and More on What Customers “Need”
Disruptive Technology

![Diagram of Disruptive Technology over time]

- Most demanding use
- High quality use
- Disruptive Technology
- Medium quality use
- Low quality use
Value Chain Evolution Theory

Disruptive Business Models: Vertically Integrating VC to Improve What’s “Not Good Enough” in the company’s products and services judged by customers.

Performance Defining Subsystems: Companies must control all those activities and combinations of activities in the value chain that drive the product performance characteristics that matter most to customers.

Specialists will seek to control performance drivers based on differences in motivation and skills around a modular interface in the VC. (Sword & Shield)
## RPV Theory: Building Capabilities

<table>
<thead>
<tr>
<th>Resources</th>
<th>Processes</th>
<th>Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets the Firm can Buy or Sell, Build or Destroy</td>
<td>Ways to Turn Resources into Products/Services</td>
<td>Prioritization</td>
</tr>
<tr>
<td>People</td>
<td>Hiring/Training</td>
<td>Criteria for Decision-Making</td>
</tr>
<tr>
<td>Technology</td>
<td>Product Dev.</td>
<td>Cost Structure</td>
</tr>
<tr>
<td>Products</td>
<td>Manufacturing</td>
<td>Income Statement</td>
</tr>
<tr>
<td>Equipment</td>
<td>Budgeting</td>
<td>Customer Demand</td>
</tr>
<tr>
<td>Cash/Brand/Distr.</td>
<td>Research</td>
<td>Opp. Size</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ethics</td>
</tr>
</tbody>
</table>
Disruptive Innovation Theory

- **Performance**
- **Difference Performance Measure**
- **Time**
- **Nonconsumers or Nonconsuming Contexts**

- **Sustaining Innovations**
  Better Products Brought to Established Markets

- **Low-End Disruptions**
  Target Overshot Customers with a Lower Cost Business Model

- **New-Market Disruption**
  Compete Against Nonconsumption

Nonconsumers or Nonconsuming Contexts
Consumer Demand & Signals of Change

- Non-Market Contexts: External Forces (Government, Economics, etc.)
  Increasing or Decreasing Barriers to Innovation

- Undershot Consumers: Opportunities for Up-Market Sustaining Innovations

- Overshot Consumers: Opportunities for Low-End Disruption, Shifting Profits by Specialist Displacements (Modularity) and the Emergence of Rules

- Non-Consumers: Opportunities for New Market Disruptive Growth

**Established Companies almost always Lose to Disruptive Innovators**
Application of the Intelligence Community & Think Tank Model for
TASKING > SENSING > INTERPRETATION
Questions or Comments?
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