

COMPETITOR INTELLIGENCE

by

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LIBRARIES

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DEDICATION

I dedicate this work to my loving wife Elizabeth, who patiently endured our long stretches apart and weary time together. Without her keen editing eye, logical mind, and serious academic perspective, I would have gained far less from this adventure.

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ABSTRACT

Good strategic decisions depend on good competitive data. In order to make intelligent decisions, how can one gather significant knowledge about portfolio companies obscured by parent organizations or about privately-held firms, when information is not readily available? Commonly used information sources are of meager value when researching or dealing with organizations of this type.

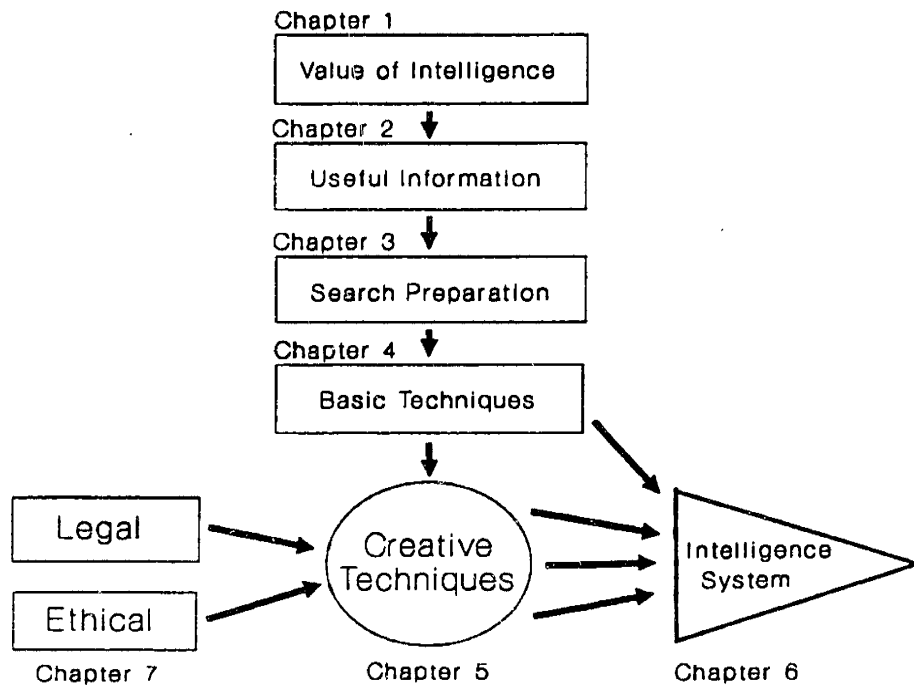
This thesis explores the process of gathering information about competitors focusing on the additional challenge of discerning and interpreting the positions and strategies of "hidden" competitors. This thesis also evaluates the various competitive intelligence techniques for gathering the different types of desired information. It then identifies the problem of and proposes a unique, effective method for storing, retrieving and reporting pertinent information. Finally, it surveys the possible legal and ethical ramifications of those techniques.

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VISUAL OUTLINE



INTRODUCTION

"Next to knowing all about your own business, the best thing is to know all about the other fellow's business."

John D. Rockefeller

Understanding strategic management involves understanding the companies behind the strategies. In order to first learn about those companies, one must locate the sources of the needed information.

You can begin to find this information in a local business library, where professional researchers can assist by consulting annual reports, industry analyst surveys, newspaper and magazine articles, and even electronic databases both at the library and accessible by computer.

Strategic management research is relatively easy when the competing companies ("visible companies") fit the ideal research qualifications: U.S. owned, non-diversified, publicly traded and in a large industry with full-time analysts.

However, very little information is available from the library about privately-held firms, small divisions of larger companies, or foreign-owned companies ("hidden competitors").

This thesis is a direct response to the problems inherent in researching the strategies of such hidden competitors. Only a fraction of all companies fit the profile for which the library maintains sufficient data. So many are divisions, foreign owned, taken private, or for some reason hidden.

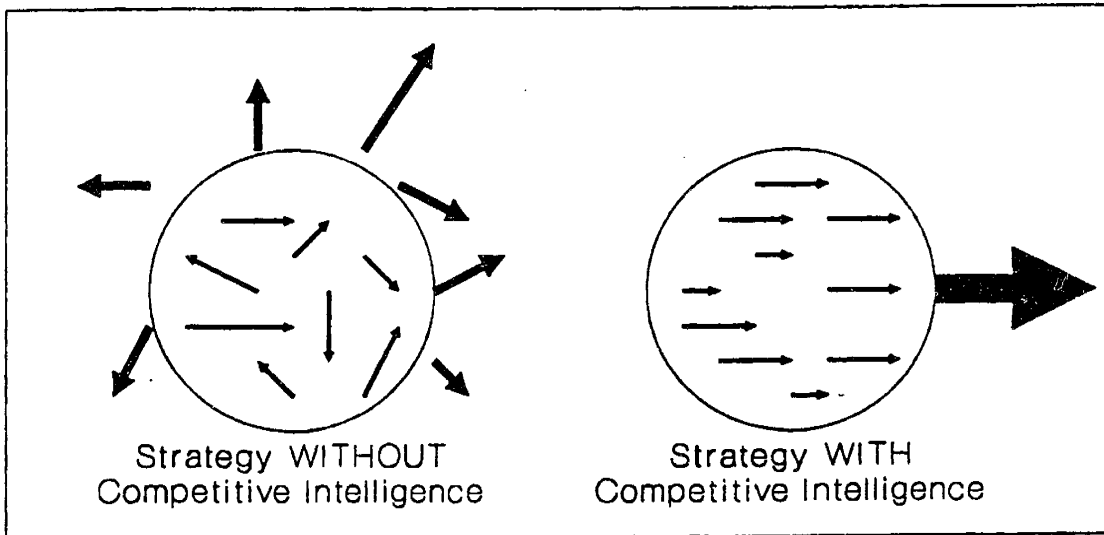
There are legal and ethical ways to find the answers to most questions about hidden competitors. The research techniques are quite different from and more difficult than those used for visible companies, but the rewards for finding the right information can be tremendous.

The techniques reviewed will range from reading brochures and clipping newspaper articles to eavesdropping with electronic "bugs" and hearing conversations through glass windows with lasers. The legality of all methods will be considered, as well as the ethical issues.

In addition, different questions about the competition will mandate different research methodology. Guidelines are offered to help match those questions with answer sources. The final product of this paper is a guide to the appropriate techniques to assist in uncovering that particular bit of competitor information needed and a long-term method for collecting, storing, and reporting actionable information for the future.

CHAPTER ONE

THE VALUE OF COMPETITOR INTELLIGENCE



Countless business plans are flawed. Thousands of new products fail. Too many strategic initiatives falter. Why? Because all too often marketplace reactions are misjudged because of a lack of good competitor intelligence. Most businesses think they know their competitor's strengths and weaknesses, but very few really understand the motivations behind their competitor's behavior. And they subsequently lack the skills necessary to maximize their competitive potential.

The objectives of any full competitor intelligence initiative should be to: avoid surprises, identify threats and

opportunities, and gain competitive advantage by faster response times, better planning, and a better understanding of one's own company.

American business has developed a peculiar aversion to truly understanding the competition and the concept of using "benchmarking" (the systematic research and analysis of the best products and services the industry has to offer), to judge their performance and glean ideas for improvements. This aversion is partially borne of the American manufacturing dominance of the 1950's and 1960's when there was no effective global competition to U.S. made goods. During that time, there was no perceived need to benchmark the competitors' products because business policy dictated the concept of efficient mass production and product differentiation through marketing and finance. The products themselves only had to be "just as good as" their main competitor's products.

However, the Japanese showed the world the power of understanding the competition by exhaustively studying their competitor's products, companies and customers and using that information to build more desirable products. Their success strongly suggests that the competitor who knows and understands the competition can prevail over the less enlightened counterpart.

How quickly will American business recognize the potential advantages of competitor intelligence? Some companies have been relying on competitor intelligence systems for over a decade. Others are newer to the process. Most companies have no formal intelligence gathering program, and thereby miss opportunities for competitive advance.

What exactly is competitor (or competitive or business) intelligence? The terms have been used interchangeably, but they are actually quite different. Listed below are various descriptions. Benjamin and Tamar Gilad in The business Intelligence System: A New Tool for Competitive Advantage, define business intelligence (BI) as:

...the activity of monitoring the environment external to the firm for information that is relevant for the decision-making process in the company...Informal BI involves uncoordinated BI activities carried on by individuals on an ad hoc basis. A formal BI process is organized, systematic, and ongoing, and it produces high quality intelligence.¹

And competitor intelligence as described by; The Competitor Intelligence Group, Leonard M. Fuld, and Sammon, Kurland and Spitalnic embodies all of the following:

1. Benjamin and Tamar Gilad, The Business Intelligence System: A New Tool for Competitive Advantage, (New York: AMACOM, a division of American Management Association, 1988), viii.

Competitor intelligence is the analytical process that transforms disaggregated competitor data into relevant, accurate and usable strategic knowledge about competitors' position, performance, capabilities and intentions.¹

Competitor intelligence is "highly specific and timely information about a corporation."²

The objective of competitor intelligence is not to steal a competitor's trade secrets or other proprietary property, but rather to gather in a systematic, overt (i.e., legal) manner a wide range of information that when collated and analyzed provides a fuller understanding of a competitor firm's structure, culture, behavior, capabilities, and weaknesses.³

The simple definition of "competitor intelligence" is the process of developing a profile of a particular competitor. "Competitive intelligence" includes the profiles of all other competitors in a given industry. And "business intelligence" refers to knowledge about all factors of the business environment that could affect strategy. "Business intelligence" would include information about potential

1. Seminar guide, The Competitor Intelligence Group, division of Kirk Tyson & Associates, Ltd., 1986, III-11.

2. Leonard M. Fuld, Competitor Intelligence: How to Get It; How to Use It (New York: John Wiley & Sons, Inc., 1985), 9.

3. William L. Sammon, Mark A. Kurland, and Robert Spitalnic, Business Competitor Intelligence: Methods For Collecting, Organizing And Using Information (New York: John Wiley & Sons, Inc., 1984), 62.

merger or acquisition candidates, the political stability of various countries with regional offices, labor union insight, etc. This paper will focus on "competitor intelligence", as it is the building block of the other two concepts.

One of the earliest examples of the use of competitor intelligence (CI) was contained in The Art of War by a fourth century B.C. military theorist named Sun Tzu. He explains:

Now the reason the enlightened prince and the wise general conquer the enemy whenever they move and their achievements surpass those of ordinary men is foreknowledge. What is called "foreknowledge" cannot be elicited from spirits, nor from goals, nor by analogy with past events nor from calculations. It must be obtained from men who know the enemy situation.¹

In the thirteenth century, Genghis Khan and the Mongols achieved an unparalleled success in conquering Asia and Eastern Europe often sweeping opposing armies three and four times their size from the battlefield. The Encyclopedia of Military History points out that:

1. William L. Sammon, Mark A. Kurland, and Robert Spitalnic, Business Competitor Intelligence: Methods For Collecting, Organizing And Using Information (New York: John Wiley & Sons, Inc., 1984) 25, citing Samuel B. Griffith translator, Sun Tzu: The Art of War (New York: Oxford University Press, 1963) 143.

An essential element of Mongol planning was its intelligence system. Operations plans were always based on thorough study and evaluation of amazingly complete and accurate information. The Mongol intelligence network spread throughout the world; its thoroughness excelled all others of the Middle Ages. Spies generally operated under the guise of merchants or traders...Orders and the exchange of combat intelligence information passed rapidly between the Khan's headquarters and his subordinate units by swift mounted couriers. Thus Genghis, to an extent rarely matched in history was able to assure complete unity of command at all levels and yet retain close personal control over the most extensive operations.¹

In the early nineteenth century, a few Europeans were taking advantage of competitor intelligence to further their company's goals:

In promoting their employers' financial interests from headquarters in Frankfurt-am-Main, London, Paris, Vienna and Naples, Rothschild agents were often able to gain vital intelligence before governments did. In 1815, while Europe awaited news of the Battle of Waterloo, Nathan Rothschild in London already knew that the British had been victorious. In order to make a financial killing, he then depressed the market by selling British Government securities; those who watched his every move in the market did likewise, concluding that Waterloo had been lost by the British and their allies. At the proper moment he bought back in at the low, and when the news was finally generally known, the value of government securities

1. Ibid., 26-27, citing R.E. Dupuy and T.W. Dupuy, The Encyclopedia of Military History (New York: Harper and Row, 1970), 343.

naturally soared.¹

A significant competitive advantage for the allies in World War II was the intelligence services of the OSS (which later became the CIA). All critical aspects of the strategic environment including; economic, political, sociological, cultural, military and military technology were systematically researched and analyzed by intelligence specialists. In Business Competitor Intelligence, the authors state that "Political and military strategy was not always better because of this new 'analytical' form of intelligence, but strategy became impossible without it."²

In the 1950's American business "discovered" the concept of strategy, and in the 1960's that process was expanded to include strategic planning. The authors of Business Competitor Intelligence conclude that by the 1970's most sophisticated companies were involved in it to some degree, but by the 1980's "most were wondering why it worked so poorly. Part of the answer may be that strategy without competitor intelligence is a contradiction in terms."³

1. Ibid., 30, citing Allen W. Dulles, The Craft of Intelligence (New York: New American Library, 1965), 24.

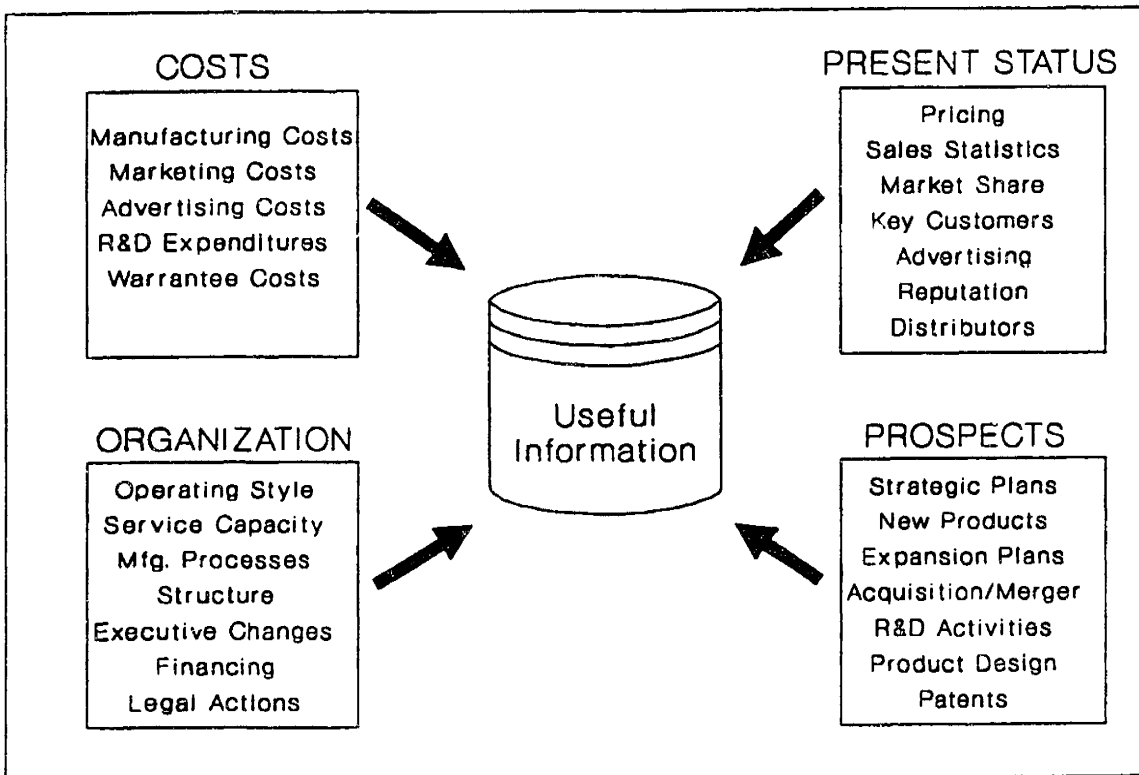
2. Ibid., 36-37.

3. Ibid., 37.

The question then is, "What information should be known of competitors so that strategic planning can work effectively?"

CHAPTER TWO

USEFUL TYPES OF COMPETITOR INFORMATION



A clear understanding of the information that a company needs is possibly the most important first step in gathering results. Without this focus and direction, the scope of the research would be far too broad to be efficient. Certainly the data needed in any one situation would differ from the next, but in general, there are some recurrent intelligence gathering goals.

In 1988, the Conference Board surveyed three hundred companies to determine what types of information on average were deemed most useful. Their survey indicates that pricing, sales data, strategic plans, market share, key customers, new product programs and expansion plans tops the list of intelligence possibilities.

The survey also showed that there was less interest in competitor's operational and organizational issues, such as; executive compensation, company structure, financing practices, etc.

The responses were surprisingly similar across a great variety of companies and industries, which indicates that the information needs for most companies are, in general, quite homogeneous.

Information that earned the "very" or "fairly" useful rating include:¹

Present status:	Total
Pricing	97%
Sales statistics	94
Market share changes	93
Key customers	91
Advertising/marketing activities	81
Company reputation	77
Distributors	63
Suppliers	50

1. The Conference Board, Competitive Intelligence (New York: The Conference Board, Inc., 1988), 16.

Prospects:	
Strategic plans	93
New product programs	91
Expansion plans	91
Acquisition/merger activities	83
R&D activities	80
Product design	79
Patents	56
Costs:	
Manufacturing costs	83
Marketing costs	71
Advertising costs	48
Organization and operations:	
Company operating style	76
Service capabilities	76
Manufacturing processes	75
Company organization structure	62
Executive changes	58
Financing practices	47
Legal actions	46
Executive compensation	20

Variations by type of company and individual circumstance notwithstanding, this report clearly suggests that competitor pricing is most important, followed by strategy and sales data intelligence.

In fact, when asked to identify their single most important type of competitor information, the respondents offered the following:¹

	Industrial	Consumer	Total
Pricing	26%	20%	23%
Strategy	20	15	19
Sales data	11	18	13
New products,			

1. Ibid., 18.

product mix	13	8	11
Adv./marketing activities	3	19	7
Costs	8	3	6
Key customers/ markets	3	6	3
R&D	2	1	2
Management style	1	3	2
Other	4	-	4
No answer	9	7	10
	-----	-----	-----
	100%	100%	100%
Respondents	158	72	308

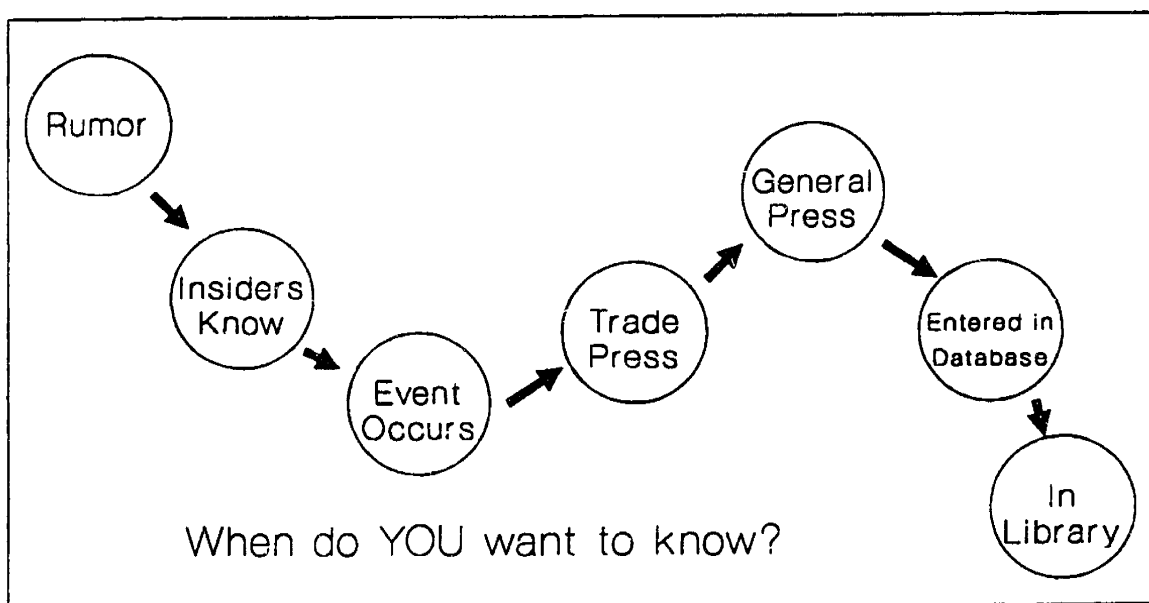
So in addition to those items mentioned above, competitor's new products and product mix intelligence is especially helpful for companies making industrial goods, while advertising and marketing activities are helpful for consumer goods providers.

Having established the overall need for competitor intelligence and the specific types of data most likely to be of interest, we now explore the avenues of possible sources of this information. The first stop is a good local business library, which is where a basic intelligence search can begin. Before beginning any search, however, there is some preparation to be done.

CHAPTER THREE

PREPARATION FOR THE SEARCH

"Whenever money is exchanged, so is information."¹



In preparation for any intelligence search, it is helpful to review the flow of information. Leonard Fuld describes the usual sequence of events as:

1. Rumor stirs of an impending announcement from within the company.

1. Leonard M. Fuld, Competitor Intelligence: How to Get It; How to Use It (New York: John Wiley & Sons, Inc., 1985), 18.

2. The event becomes known somewhat before the fact to knowledgeable sources - for example, to brokers, suppliers, and dealers.
3. The event occurs.
4. The event reaches the industry through trade shows, the trade press, and salespeople.
5. The general press picks up the news.
6. Information may be entered into a data bank.
7. Finally, the articles are printed on micro-film and are cataloged in indexes to be filed away on a library shelf.¹

The conclusion that can be drawn from the information flow above is that early warning is the most difficult data to collect. If one can afford to wait a few months, the information will almost always be easier to locate. But the difference, then, is the value of news.

This issue of timeliness brings us to the first step of the search process; defining the question. Fuld offers the following as a nine step checklist to use when researching a company:

1. Define the question
 2. Learn the industry structure
 3. Know your sources (basic and creative)
 4. Conduct a literature search
 5. Retrieve the articles/explore the library
 6. Milk those articles
 7. Prepare strategy
 8. Begin interview process
-

1. Ibid., 15.

9. Debriefing and recording of results¹

Many experts suggest that the search not begin until the question is robustly developed, agreed to, and put in writing. This saves time and reduces the possibility of confusion. An example of a written format for a search request appears in Appendix 1. Without a clear goal, you may not know when you have found what you need.

If you do not know the industry or information sources available to you, researching those areas come next. Passages could be meaningless and contacts uncooperative if you do not understand and speak the terminology of the business.

Conducting a literature search and exploring the library are generally thought to be the first steps (and often the only steps) in a competitor information search. However, after drawing as much as possible from those written sources, it is sometimes necessary to develop a plan to interview knowledgeable people in the field. This is a powerful tool, and can yield tremendous results, or elicit a quick hang up, depending on the interviewer's technique.

Finally, debriefing and recording of results presents the fruits of the search labor, and prevents duplication of

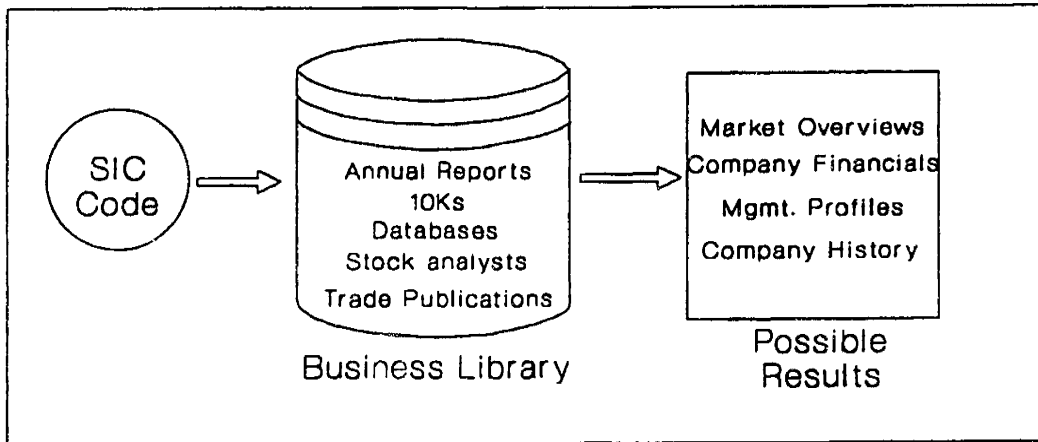
1. Ibid., 33-34.

efforts for later searches. The checklist might also include the development of a framework for information storing, retrieving and reporting on an ongoing basis.

The best tools a researcher can possess are; access to a good business library, keen insight, creativity, strategic thinking, patience and persistence.

CHAPTER FOUR

THE BASIC TECHNIQUES



Many intelligence questions have easy answers, they are just hard to find. Some seemingly impossible tasks can be solved with one quick phone call. Other jobs which seem incredibly easy could be impossible to fulfill. However, this study addresses those information gathering tasks that fall somewhere between trivial and impossible. We will begin with the easy, basic techniques and progress to the more creative and exotic.

The basic search techniques may well be enough to satisfy most intelligence needs. Volumes of information is available about large, publicly-held domestic companies and are

easily found at the business library. Privately-held companies' data are, in general harder to find. What cannot be found in the library will usually be more difficult to uncover, and will require more creative techniques. But most searches should begin with the basics, which means the easily available information at the library.

A generalized basic search begins with establishing priorities. The first priority is to understand the market in general, and where the target firm is positioned. The second priority is to discover enough financial data to satisfy your query. The third priority is to learn about the management of the firm, and the fourth priority is the company's history.

The most important data to begin with is the target company's name, address and Standard Industrial Classification (SIC) code. This multi-digit code identifies the type of business that a company is engaged in, and many reference sources are cross-referenced to it.

Most reference books use four digit codes, with only a few using the more detailed seven-digit classification. Michael Porter, in his book *Competitive Strategy* states that "two-digit industries overly broad for most purposes, five-digit industries often too narrow, and four-digit industries

usually about right."¹ In reality, the four-digit number is quite misleading because it is usually far too broad, and normally includes scores of non-competing companies. Porter's research experience may well be in industries of a few large competitors, but most four-digit codes have huge company lists within them. The seven-digit code, where available, is the best way to pinpoint the possible competitors.

At first blush, a good business library would appear to have reams of recent information on almost all companies. After spending some time looking for a information on a broad spectrum of companies, one learns that the library does have voluminous information on large publicly-held domestic companies, however the vast majority of businesses are under-represented. These are the "hidden" companies, whose private owners do not release information, or divisions of large companies "hidden" in the labyrinth of consolidated reports.

Possibly the best area for financial information is the annual report section. Publicly-held firms' annual reports and some firms' 10-K reports may well be available, either in print or microfiche. These are excellent sources for

1. Michael E. Porter, Competitive Strategy: Techniques for Analyzing Industries and Competitors (New York: The Free Press, 1980), 370.

financial, historical, product, market, and corporate organization information.

Most of the space in the library is given to all the books it maintains. However, for competitor intelligence purposes, these books are nearly always too out-of-date. Therefore, one generally ignores the stacks and focuses on the more recent materials.

The on-line computerized databases, such as ABI Inform and the Lotus OneSource can be excellent tools to rapidly assemble company and competitor profiles and cull abstracts of a vast number of related published articles. These sources have the added benefit of offering downloading and selective printout of interesting data, facilitating the gathering and processing of the information.

If some abstracts from the computerized databases appear interesting, consider locating the full texts in the appropriate periodicals. The abstracts are, by definition, incomplete and may be missing valuable additional insights to the research question. By reading the entire article, you may also find additional references which may prove valuable.

Another helpful section would be the corporate directory area. These expensive annual listings of all companies

above a minimal size contain possibly the best quick source of sales and employment data, and also help in locating branch and sales offices, and manufacturing locations. Dun & Bradstreet publish what are probably the most helpful and complete set of references on public and private companies, but others are also quite useful.

The stock analysts have great interest in the future profitability of companies, and their publications are practical if the search question concerns the financial performance of a publicly-traded firm. Sometimes these references dabble in the prospects of new product introduction and organizational change issues, as the authors often spend all their working hours tracking this target company's news. Moody's publishes a good starting reference.

Of course, the librarian may assist by providing a more in-depth database search of a far greater number of sources than available to most computerized database services. One such in-depth database service is the "Dialog" search. It is expensive and time-consuming, but can locate materials much more quickly than manual means. One must be careful of the scope of the search that is requested, because broad requests can cost thousands of dollars, and yield only marginal new information.

To begin a generalized corporate search, consider the fol-

lowing four priorities: Market overviews, company financials, management profiles, and company history. For market overviews, the following should be helpful: Trade magazine annual issues, U.S. Department of Commerce publications, market studies, Wall Street Transcripts, commercial data bases, competitors and suppliers.

For company financial information, the following are good starting points: SEC documents, annual reports, credit reports, trade news articles, Wall Street transcripts, Moody's Investors Manuals and Standard & Poor's Daily News Data Base.

For management profiles, look for: Articles from local newspapers, Who's Who directories, Dun & Bradstreet Credit reports and Annual reports and proxies, if available.

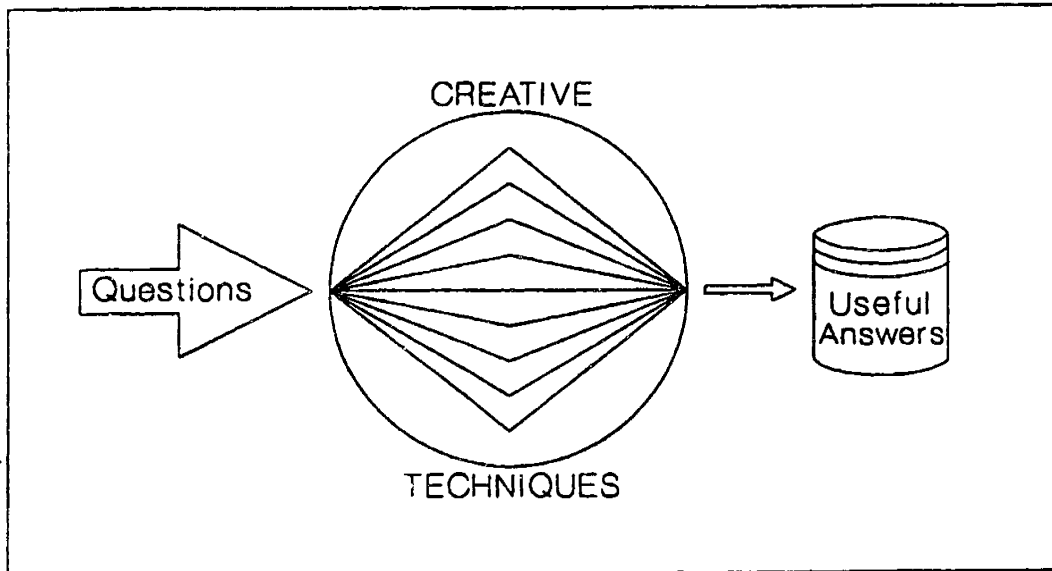
Finally, for company history information, check: SEC filings, Annual reports, Moody's Investor's Manual, Trade news/special reports, and academic case studies.

The above steps would take only a few hours, yet may well have produced all the needed answers. However, if the target company is a hidden competitor, any answers are likely to be sketchy and difficult to corroborate. To fill out the gaps in those searches, a more creative approach is needed.

CHAPTER FIVE

THE CREATIVE TECHNIQUES

Each business transaction reveals data. By understanding the transaction, you can locate the intelligence source.¹



If a basic search has not located the needed information, a creative search is required. In this type of search, one must realize that the information has probably been shrouded intentionally, by a company that may not want you to know their secrets. These "hidden" companies make the intelli-

1. Fuld, Competitor Intelligence, 14.

gence gatherer's job more challenging, and therefore, one must generally exert a higher level of effort to find the answers.

Most writers on this subject tend to present various advanced intelligence gathering techniques from the perspective of the type of source. For example, government publications are listed by Federal, State and then Local levels.

Under the assumption that most gatherers begin an intelligence search looking for a specific answer, this paper will present various techniques grouped by question, not source. For example, pricing information sources are grouped together, and net sales sources are listed elsewhere.

The useful types of competitor information presented earlier in this paper will now provide the structure for answering the questions of this chapter. Those questions were grouped by general area of interest: Present Status, Prospects, Costs, and Organizational and operations.

PRESENT STATUS:

Pricing

The most popular competitor information of any type (according to the survey), is in the area of pricing. The gatherer should be careful not to ignore the guidelines presented by the Sherman Antitrust Act of 1890, discussed in the legal

section of this paper. Techniques to consider include:

- Customers (competitor's)
- Independent surveys/market studies
- Trade magazine reviews
- Dun & Bradstreet reports
- Local newspaper stories and reporters
- Competitor itself
- Local business development offices

Sales statistics

The second most popular information is that of sales volume and related data. Aggregated information may be easy to find, but specific product line sales volume is often difficult. Consider the following sources:

- Competitor's sales force
- Dun & Bradstreet credit reports
- Reference books
- Suppliers
- SEC Documents
- Annual reports/10K's
- Moody's investors manuals
- Census of Manufacturers
- Corporate Sourcebook

Market share changes

Many companies closely follow market share changes as an indicator of relative performance of one company versus the competitors. Market share data can either be obtained in whole, or multiple sources can be consulted to determine a derived market share number. Some good sources to consider are:

- Trade associations
- Industry analyst reports
- Government data sources

Key customers

Knowing the key customers of a competitor can be extremely valuable when the competitor "stumbles" and allows you a window of opportunity with his customers. Delays in learning the identity of those potential new customers or decision makers can be costly. In that situation, go to the following:

- Competitor salespeople
- Own salespeople
- Survey of large customers

Advertising/marketing activities

Advertising and marketing activity changes in many industries are crucial and very time-sensitive. A media or marketing blitz in a market can devastate the unsuspecting competitor. Sources to watch for these activities include:

- Advertising Age special issues
- Competitor's customers
- Newspaper scanning services

Company reputation

Knowing a company's reputation can often assist in predicting their future behavior. Consult the following for insight into the culture of the competitor:

- Ex-employees
- Industry analysts
- Long-time industry participants
- Other competitors
- Local newspaper reporter

Distributors

Knowledge of a competitor's distributors has similar benefits to knowledge of key customers. Both areas of intelligence allow for the rapid exploitation of a competitor's mistakes. Try these sources:

- Competitor salespeople
- Own salespeople
- Survey of large customers

Suppliers

Supplier information serves two purposes. Knowledge of suppliers can assist in estimating a competitor's cost structures, and can also be great sources of further information such as volume and new product development. Maintain contact through the following:

- Observation of trucks at competitor's sites
- Survey of suppliers
- Purchasing department
- Benchmarking exercise

PROSPECTS:

Strategic plans

Knowledge of a competitor's strategic plans is the essence of competitive strategy, and the more timely and accurate the competitor information, the more secure and profitable a company can be. Work with these sources:

Ex-employees
Wall Street Transcript reprints of a competitor's speech
Mailing list of who is moving into each state
Local and state labor offices
Local business development offices

New product programs

New products are the lifeblood of a company. The life-cycle theory predicts that without new products, a company will eventually fold. The Japanese focus intensely on knowing as much as possible about their competitors' new products. Americans should too. These sources will help:

Competitor product literature
Help-wanted advertising for engineers by competitor
Trade shows
Competitor's suppliers
Competitor's best customers
Subcontractors
Ad agencies

Expansion plans

Expansion plans tell not only how a company is doing, but also where and how it expects to grow. The following sources may know these plans:

Key customers
Suppliers
Realtors
Help-wanted advertising
Local newspaper reporters
Unions
Mailing list of who is moving into each state
Local and state labor offices
Local business development offices
Local zoning offices
Environmental Protection Agencies and offices

Acquisition/merger activities

This highly sensitive information is difficult to find and stock trading on it is illegal. However, the following may know particulars early:

- Stock analysts
- Industry analysts

R&D activities

R&D activities, like new product programs, are vital to the future of any company, and indicate a company's strategic direction. Consult the following:

- Professional conferences
- Help-wanted advertising by competitor
- Ex-employees
- Competitor's best customers

Product design

Advance knowledge of a competitor's product design gives a host of clues about its cost, expertise, functionality and manufacturability. Sources include:

- Professional conferences
- Competitor product literature
- Ex-employees

Patents

A competitor's patent applications indicate the direction and expertise of their R&D organization. Awareness of their

patents also keeps you from infringing. Work with:

- Patent attorneys
- Patent and trademark offices
- Professional conference participants

COSTS:

Manufacturing costs

Manufacturing cost is a powerful determinant of profitability and long-term competitive position. Knowledge of a competitor's manufacturing cost can be an effective tool to help drive down one's own cost, and improve profitability. For many companies this is very valuable information, but difficult to find. Try:

- Material suppliers
- Machinery suppliers
- Subcontractors
- Ex-employees

Marketing costs

Marketing cost knowledge is not as important as manufacturing cost knowledge to most companies, but it is still useful information to understand competitor profitability. Consider soliciting:

- Advertising agencies
- Competitor's salespeople
- Ex-employees

Advertising costs

Advertising costs, like overall marketing costs is very important to large, consumer goods businesses. The following data sources may be helpful:

- Advertising Age special issues
- Advertising business magazines
- Advertising references
- Newspaper clipping services

ORGANIZATION AND OPERATIONS:

Company operating style

Comparisons with a competitor's operating style mostly just reflects a company's unique culture, not necessarily an opportunity for profit maximization. However, it could help a company better understand its own competitive advantage.

Sources for this information include:

- Ex-employees
- Current employees
- Customers

Service capabilities

American businesses, even manufacturing concerns are increasingly competing on the dimension of service capabilities. Knowledge of the competitor's capacity and performance is essential to compete effectively. Get this knowledge from:

- Customers
- Competitor's salespeople
- Suppliers

Manufacturing processes

Manufacturing process is one component of manufacturing cost, which reflects a company's profitability and ability to withstand your competition. Knowledge of this process is derived from:

- Suppliers
- Customers who have been on plant tours
- Ex-employees

Company organization structure

Knowing a company's organizational structure can be very helpful in understanding the power relationships and possible weaknesses inside the company. It is akin to the advantage of knowing a football team's defensive manpower and positioning before you run your play. Your chances of success are greater. Sources for this include:

- Ex-employees
- Help-wanted advertisements
- Competitor's internal phone listings

Executive changes

The comings and goings of your competitor's top people can spell shifts in emphasis and weaknesses in organizational structure. To stay abreast of these changes, consult:

- Local/national newspapers
- Customers
- Suppliers
- Competitor's newsletter

Wall Street Journal help-wanted ads
Executive placement firms

Financing practices

A competitor's financial practices can indicate strength and ability to withstand competitive assault. Sources for this include:

Dun & Bradstreet credit reports
Uniform Commercial code offices (state levels)

Legal actions

Pending legal action against a competitor can distract it from your strategic initiatives. Legal action initiated by a competitor indicates where and how extensively it chooses to protect and defend itself. Find out from:

Offices of states' attorneys general
Dun & Bradstreet credit reports
SEC reports
Lexus legal on-line database

Executive compensation

A curiosity about the income level of peer executives at the competing company may be trivial, or may be used to assist setting compensation levels in one's own firm. In any case, potential sources include:

Third-party surveys
Executive search firms

However, often the best and cheapest source of information is often right under the researcher's nose. One's own company has a great knowledge of all phases of the competition, but that knowledge is usually very dispersed, and therefore not viewed as a powerful intelligence source. A company looking for information should consider an intelligence audit, which formalizes the assessment of competitor information available throughout the organization.

After an intelligence audit, a company may discover that more competitor intelligence exists than previously suspected. A company's own personnel can be very effective information gatherers if only given the proper direction and incentives. Many businesses have unleashed potent data gathering forces by simply asking their employees to report back on specified issues of concern. The six "newspaper reporter" questions (how, what, where, who, why and when) closely relate to the needs of intelligence gathering. Effective intelligence systems have energized employees, who know how to gather information, what information is currently needed, where the information may be, who might know, why it is important, and when it is needed.

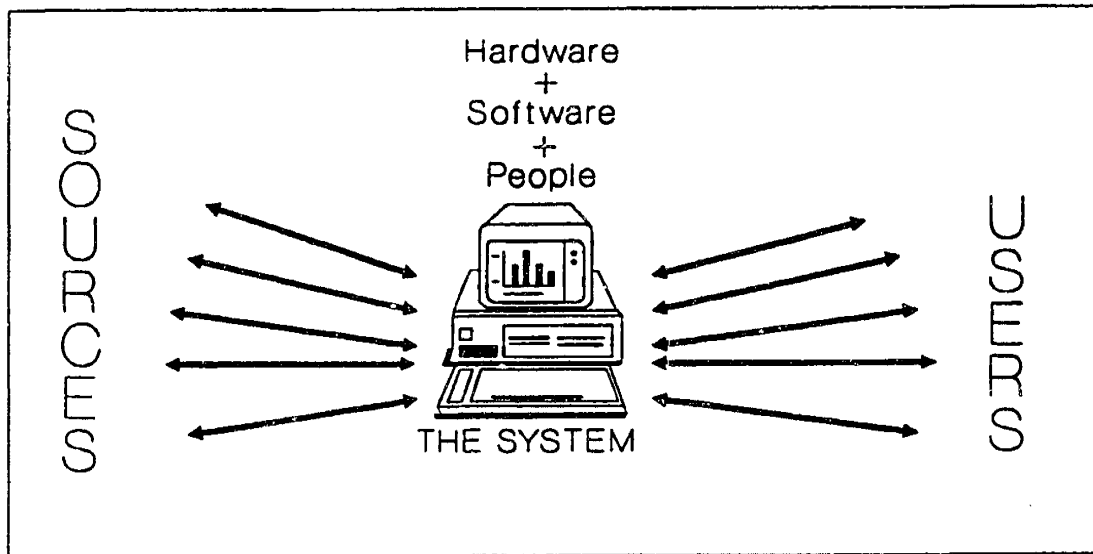
With properly motivated employees contributing information bits and pieces regularly, and an intelligence audit which uncovers good data scattered around the company, one may wish to consolidate the information to allow for processing

into intelligence, and to make that intelligence widely available throughout the company. The intelligence system presented in the next section facilitates that task.

CHAPTER SIX

THE INTELLIGENCE SYSTEM

"Like a computer system, a competitor intelligence system is hard to justify up front. But eventually it becomes clear that strategic decisions made with inadequate or incorrect competitive information could cost the company millions of dollars."¹



Technology has dramatically changed the practice of gathering and using competitor intelligence. Thirty years ago, the only conceivable way to store and retrieve competitive data was in a manual fashion, with dozens of bulging filing

1. The Conference Board, Competitive Intelligence, 13.

cabinets. Twenty years ago, some may have considered using a room-size computing facility. Ten years ago, forward thinkers may have wondered about the possibilities of simple databases on microcomputers. Today the tools are far more sophisticated, and we can choose the best combination for the job.

The old filing cabinet system was fraught with weaknesses. Simply typing and filing the information correctly, with appropriate cross-references was a major undertaking with any reasonable amount of data. Information was lost, misfiled, borrowed and not returned, etc. The main problem was that the entry and retrieval time was so long, the data lost effectiveness. For these and other reasons, the manual filing systems, although still prevalent, without some sort of effective indexing system are not as effective as possible for competitive intelligence.

A large mainframe computer had the advantages of widespread availability through many terminals, and fast access to data. Information could also be easily cross-referenced and scanned. However, the cost of developing software and maintaining the equipment and staff often outweighed the apparent benefits, and the system was often an early casualty during cyclic business downturns or management changes.

Microcomputers had the advantage of easy programming, wide

availability and low cost. However, the early machines were only usable by one person at a time, and could not store very much information.

Until relatively recently, there was no cost effective means of organizing competitor data. With the advances of the last decade, this has all changed. But before exploring solutions, we should first analyze the needs of any proposed system.

There are four important dynamics of business intelligence. Gilad and Gilad, in *The Business Intelligence System* suggest that most useful information is in a written text format, fragmented, and derived from multiple sources. Various types and sources of information must be related to be of value. Uncorroborated data is not nearly as useful as information which can be verified by second and third sources. In addition, information almost always has an important time value. Old information is usually useless information.

Therefore a good intelligence system must have four basic requirements:

1. The system must permit the storing and retrieval of TEXTUAL information.
2. The system must permit the storage and manipulation of LARGE amounts of data.

3. The system must facilitate the storage and retrieval of data by MULTIPLE KEYS so that bits of pieces can be related to each other.
4. The system must provide information on a TIMELY basis.¹

The important issue for managers lies in which information gathering system or systems strategy should be used to most effectively establish an intelligence system to fulfill the above-mentioned needs. The available systems have various and specific capabilities.

Manual Systems

Manual file and reference based systems can be easy to establish - most companies already have something in place. Like a library, they do not necessarily need to be staffed; they can be self-service.

Most manual systems could be improved by offering a mix of internal and external sources. Internal sources include memoranda, strategic plans, sales-call reports, hot-line comments, competitor reports, competitor product evaluations from Research and Development, or any other internally-produced documents. External sources include; annual re-

1. Benjamin and Tamar Gilad, The Business Intelligence System: A New Tool for Competitive Advantage (New York: ANACOM, a division of American Management Association, 1988), 127-128.

ports, Securities Exchange Commission reports, product literature and price lists, news articles, market evaluations and any available public filings, among others.

The most valuable addition to any manual system would be an effective index. The ability to cross-reference a variety of product lines, brands, companies or topics is a tremendous advantage when searching for real intelligence from sets of raw data. This is possibly the most difficult function of a manual system, and one that a computer can execute quite well.

Unfortunately, because most manual systems involve low effort and minimal budget, they usually correlate to low value and lack of use. Employees have no real incentive to spend extra time gathering information, organizing it and contributing to the file nor do they feel they can afford the time to sift through a file that most probably is out of date.

This is not to say that manual systems are never of value; certainly this method has proven helpful to many companies over the years. It is just not the best available alternative, and large efforts and budgets would be misspent if used solely for the manual method.

Computerized Systems

In fact, the computer offers a tremendous number of capabilities to any competitor information program. It provides easy access to data for any number of users. It stores and retrieves both numeric, text and graphic information. It can manipulate large amounts of data, and retrieve it using multiple keys. Retrieval can be timely and easy. It can even be accomplished from remote sites.

The system can provide easy scanning of information, encouraging widespread use by offering large amounts of information conveyed in short periods of time. The computer can also add value to the data by analyzing the raw data and presenting new insights to the user, in a variety of formats.

Finally, a computerized system can minimize the time and cost of cross-referencing the variety of information inputs, and reduce both input and output effort by the use of abstracts to refine the essence of the information. Customized input screens can further reduce the input time, and facilitate the gathering and updating of data.

Leonard Fuld, in Monitoring the Competition describes three types of computerized information systems: spreadsheet, textual and directory/index. Each have their own costs and benefits.

Spreadsheets are the most prevalent, as many managers are comfortable starting their own information spreadsheet without any assistance. Lotus 1-2-3, Excel, Quattro or SuperCalc are the most popular software options. Spreadsheets are almost always used on microcomputers, although many minicomputer and mainframe vendors tout their own equipment's spreadsheet capabilities. Spreadsheet systems are inexpensive and easy to create. A spreadsheet-based system, however, permits only one user to access the system at any one time and lacks text processing sophistication.

The textual method incorporates the use of scanners, optical character readers ("OCR") and massive electronic storage equipment to magnetically record all useful competitor data such as brochures and intelligence reports which then do not need to be re-typed. These systems are generally implemented on larger mini or mainframe computers, where the huge data capacity is practical. Kodak developed one of the first textual systems, using a large staff and very expensive computing equipment.

The enormous benefit of this approach is the company-wide availability of comprehensive, cross-referenced data. No manual files of any kind need to be kept. The high cost of such a system, however, lends itself only to a few of the largest companies, and even then the return on the investment is questionable because of the massive investment in

technology and personnel required. In addition, this approach tends to be relatively inflexible for analysis and cross-reference purposes, and quality control of the scanned documents is difficult due to current technology limitations and poor quality documents for input. Also, the companies who have tried it have experienced severe startup difficulties, usually underestimating the startup effort in both time and money.

Finally, the directory or index approach combines the advantages of the manual filing system with the advantages of the computer to produce a hybrid approach. This approach can be effectively accomplished with selectable levels of sophistication and cost, depending on company needs. The technique works best when the physical files can be located in one centralized site, which may make it less desirable for companies with far-flung operations. But this method's flexibility, ever-increasing sophistication and value make it a favorite for new entrants into the competitor intelligence fold.¹

In 1985, Fuld & Company, Inc. conducted a survey of managers in twenty-five Fortune-500 companies who were responsible for gathering corporate intelligence. The study focused on

1. Fuld, Monitoring the Competition, 69-95.

two questions: How do large companies collect and disseminate competitor intelligence, and what systems and organizational structures characterize successful programs? Highlights from the survey include:

- * Over half of the companies interviewed maintain a computerized data base containing information about various competitors.
- * In most cases, maintenance costs run at least as high or higher than the data base's start-up cost.
- * Over half the companies spent in excess of \$100,000 to build their competitor data base. (This figure includes all salaries and equipment applied to constructing a system.)
- * The average annual data base maintenance cost has been approximately \$172,500.
- * Approximately 50 percent of those with computerized data bases operate them on microcomputers.
- * Operating costs have been far higher for data bases maintained on a mainframe system than for microcomputer-based systems.
- * In many instances companies have instituted data bases that later fell into disuse. Companies abandoned data bases for some of the following reasons:
 - * They were difficult, complex, and expensive to update.
 - * They duplicated information that was available elsewhere - either on other data bases or in printed form.
 - * They did not meet the specific needs of the decision makers.
 - * Users were never educated about the specific benefits provided by the data base.
- * Several companies are re-examining the effi-

cacy of competitor data bases. Those intelligence departments with limited budgets are often shifting dollars and staff time away from data bases and into improving their relationships with other departments in the company.

- * A few companies with large intelligence budgets have chosen to maintain large data bases, but even these companies have shifted some resources toward internal networking and staff training.¹

From the survey there appeared to be two types of database systems. The first was developed in the 1970's and early 1980's on mainframe computers. They were developed apparently with little consideration for their users or overall purpose. Like so much of the "computer department" output of that time, competitor databases were not user-friendly. Consequently, users reported that the systems were rarely worth the required expense.

The second group of database systems were developed recently with microcomputers, after those machines became prevalent and sophisticated software had been developed for them. Systems in this group were reported as being far easier to access and update than the mainframe-based systems, and have generally proven to be much more successful. Their considerably lower cost for both purchase and maintenance offer a dramatically better value.

1. Ibid., 191.

The system to use in any given circumstances will be unique, due to the different needs and resources of the initiating company. However, due to recent technological changes, a clear solution for most companies can now be offered. Researchers and writers tend to focus on possible solutions practical for only the largest companies. This "Fortune 100 fascination" might lead most companies to feel that an intelligence system is beyond their capabilities. This would be a grave mistake. The proposed solution is one that is flexible enough to be practical for the vast majority of companies who need competitor intelligence.

A NEW SOLUTION

The publications in this field tend to focus on either the mainframe-based or manual systems. Presentations of systems involving microcomputers are unusual, and thorough research uncovered no mention of the unique application and combination of the latest technologies as offered below. In proposing this original system, we will consider all pertinent aspects including: scope, type, users, hardware, software, input, output and organizational issues.

In general, this solution blends a microcomputer-based abstract and indexing system with manual reference backup files. The solution takes full advantage of a variety of electronic mediums for data input (fax, voice-mail, etc.) and recognizes the need for networking of computers for

greater access and allow for multiple databases. The new technologies allow for the easy division of data entry responsibilities presented in the organizational section, while still maintaining the benefits of centralized control.

Scope

The scope of the system should definitely include one's main competitors, and possibly also abbreviated efforts for lesser competitors or potential competitors. Some companies derive great value from tracking their customers, potential customers or suppliers. The choice of scope should be based on user needs, and the system can handle whatever choice, and should be easy to modify to include later targets.

Type

Some types of systems keep raw data, some processed data, and others only abstracts. Again, the system should be flexible enough to accommodate whatever degree of depth the operator feels is mandated by any particular bit of information. In general, very short abstracts of information can be most efficient, as long as the operator takes care to include all possible keywords in the listing.

The complete texts or messages should be kept in filing cabinets, **arranged by date of entry**. This filing technique has many advantages. Since the value of news is in its timeliness, the most valuable information is always grouped

together. Also, the oldest and least valuable files do not clutter the more valuable, and are easy to periodically discard or re-file in another location. An added benefit of filing by entry date is that a quick glance in the cabinet can tell whether the volume of information input is increasing or decreasing, an important factor in determining system usefulness.

An effort should be made to encourage a great variety of inputs. By making the type of system inputs variable, potentially valuable inputs such as sales call reports or even "gut feelings" can be included to fill in pieces of the intelligence puzzle.

Users

The users of this proposed system could be anyone with a personal computer (PC) on the network or with a modem. Users with a fax could also access and receive information. Technology provides for a quickly expanding array of reception possibilities including remotely printed reports, computer controlled voice, direct data links, et cetera. A most important aspect to consider for the users is how to keep your intelligence from becoming your competitor's intelligence. Regularly changed passwords offer a good deal of protection, but may not be as secure as desired. There are many techniques for tightening security. A company needs to weigh the complexity and cost of any security

measures against potential exposure. The ultimate goal is to provide easy accessibility to authorized users while discouraging the non-authorized ones.

Hardware

Personal computers have matured significantly over the last ten years (1981-1991). Ten years ago 32K bytes of memory, a four-bit processor and two 160K byte floppy disks made what was considered a powerful system. Today, the standard memory has increased over thirty-fold, the processor four to eight-fold, and disk storage over one hundred and twenty-five-fold. In another ten years, the progression may be even more dramatic.

More importantly for competitor intelligence, the single-user system of yesterday has improved to the multi-option machine of today. With currently available alternatives, a good choice is an IBM or compatible 80386 or 80486 based machine with an optical disk drive for data storage. The optical disk has the benefits of huge capacity and complete protection of entered data, since it is a "write-once" medium. The PC can be tied to a network, and/or fitted with high-speed modems for remote access. An internal fax board can allow the machine to send output to fax machines anywhere in the world. A remote user could call the computer on a telephone, and through touch-tone control, request appropriate, even customized reports.

Software

The most important features of the controlling software is its word search capability. It must be able to search by keyword combination, and by words within a user-specified distance of each other. It must be user-friendly, fast, and easy to re-design.

The software to handle this system necessarily may have some degree of customization, but does not have to be extensive or expensive. High-level programming structures, like those offered in dBaseIV and others allow a programmer to create a simple system quickly and modify it easily. An even quicker approach is to use a program like "Q&A", which has an expert system feature built in. With this program, a user could type in a question in "plain English", and the computer would respond with the desired search report. For improved speed and capabilities, the system may need to be translated into a more powerful language, such as "C" or "Pascal".

The United States military has powerful versions of such software already operational, and soon to be offered to private industry. If so, it may be a good alternative for some large companies.

The important consideration is to start small, easy and inexpensive, and let the user patterns dictate the hardware

and/or software upgrades that are needed.

Input

Input should be centralized as much as possible and performed by as few people as possible for maximum consistency, quality and reliability. The system should encourage electronic mail (E-mail) and voice mail (V-mail) messages to the input operator as intelligence inputs. If multiple databases exist, the electronic inputs (E-mail, V-mail, fax, etc.) should automatically duplicate messages to the other database groups for possible inclusion there as well.

The most potent group to activate for data gathering is the company's own personnel. A great wealth of competitor information generally exists within any organization, but a program of eliciting and soliciting this information is generally lacking. Given proper direction and encouragement to contribute, this group can be a powerful yet inexpensive ongoing information collection network.

In the proposed new solution, there are two elements of the database: profiles and news. The profile element has preferably only one or two standardized pages for each target (competitor, potential customer, et cetera.), with a field for all basic and important aspects of the company. These fields are variable and should be determined by the needs of the users, but an example might include:

- Brand
- Company, address & phone numbers
- Owner, address & phone numbers
- Plant locations, addresses and phone numbers
- Plant production & square footage
- Employees per plant
- Sales offices, addresses and phone numbers
- Salespeople per sales office
- Credit rating
- Financial condition (briefly stated)
- Total sales and sales by item
- Unit volume by competing product lines
- Profitability by year
- Net worth
- Total debt, debt ratio
- Principal customers and purchased amounts
- Pricing strategy
- Number of total salespeople
- Major advertising vehicles, amount spent
- Number of total employees
- Number of technical employees, R&D staff
- Product warranties offered
- Major product lines
- Product differences
- Overall comments

This "profile" section should be updated at least quarterly, and the pages stored in a loose-leaf binder. It can be published, and can be an extremely valuable reference for many areas of the company, including training of new employees.

The "news" section is designed to be updated whenever information comes in. It can grow to be a very large file, so it is important to include only useful information. When a newsworthy item is discovered or submitted, a staff person would enter it onto a pre-formatted data entry screen. The process should take less than a minute per item. The screen

fields might look something like this:

- Date
- Source - complete reference
- Reliability of source
- Validity score
- Security/access restrictions
- Company
- Brand
- Topic
- News abstract

The file should be indexed on a variety of fields, but physically sorted by date. The secondary source items should include both sources. In other words, if a salesman learns of an impending competitor price increase from a common customer, the source field should include both people's names. Of course, some measure of reliability of the source should be indicated as well as estimated validity of the information. Any security or access restrictions should be noted, in accordance with a previously established coding scheme.

Next the company and/or brand should be entered, if appropriate, and the overall topic of the message. These fields are used later for indexes and searches.

Finally, the news item itself should be described in as few words as possible, but still convey the essence of the message. This field should be of variable length, such that long messages can be entered if necessary.

The overriding concern at first should be to make the system easy to use and flexible, as needs will undoubtedly change over time, especially in the early phases of any implementation program.

Output

The most important aspect of competitor intelligence output is understanding the needs of the users and thereby determining what type of reports will be helpful to them.

There are four basic types of reports to consider. A **CRITICAL INTELLIGENCE REPORT** is a call to immediate action. A **SITUATIONAL REPORT** serves as an alert. **PERIODIC REPORTS** are helpful for strategy, and **USER-REQUESTED REPORTS** are generated as needed.

These reports can be produced in printed form, verbally, or through a variety of other means. Certainly, competitor profiles are printed, but the most effective printed format for news is the newsletter.

Strong, simple, hard-hitting newsletters can be extremely potent intelligence tools if they are well executed. Many companies distribute dull, lengthy newsletters that are almost completely ineffective. A good newsletter, like a good resume, is short, direct and interesting.

Newsletters can accomplish a number of goals. They can provide the entire organization with regular updates on what the competitors are doing. They can heighten awareness and importance of the competitor intelligence function. They can also brief the readers on events and changes happening both inside the company and within the industry in general.

Some information is just too time-sensitive to print. For this kind of reporting, immediate verbal communication is required. In some circumstances this also involves the use of voice-mail messages or paging. Care should be taken to follow up with written input to the intelligence system, so as not to leave a gap in information.

Other methods of reporting include electronic mail, "mass-mailed" voice mail, and on-line computer alerts. Many companies make effective use of bulletin boards and displays for presenting intelligence. A most effective technique is the demonstration room, where the competitors' products are on display for all company personnel to observe and use.

Organization

Finally, the issue of organization should be decided. There are many types of structures, each involving different levels of central control. The salient question companies have when deciding on how to structure the intelligence system is therefore to what degree it should be centralized

or decentralized.

The answer depends on the company, the users and the decisions they make, the resources available at the two levels, overall organizational structure, and prevailing culture. In addition, there may be unique circumstances affecting the centralized area and not the decentralized areas. Finally, the presence of a "champion" or strong project leader is often cited as necessary to make a competitor intelligence system work effectively. The availability of such a champion or champions should weigh heavily on this organizational decision.

The centralized approach is often recommended for data input and coordination. This centralization permits faster, more reliable and higher consistency of input and encourages good organization of all of the materials. Decentralized, liberal access for data output and reporting works best for providing users with easy availability and therefore, high use.

However, most firms have their own political and organizational peculiarities which can scuttle even the best designed system. One should not attempt to challenge or change existing organizational practices and cultures when implementing a new competitive intelligence system. If Research and Development does not work closely with Market-

ing, do not attempt to give the system to only one or the other. Data input, (the difficult, tedious and expensive task), for the other department would tend to be ignored.

An alternative would be to give the responsibility for operating the system to an unbiased third party, possibly in the strategy group. This may be the worst option, because decisions about what information is important and deserves to be entered into the system lies in the hands of those least qualified to decide. "Unbiased" in this case generally means unqualified to make critical knowledge decisions and inferences which are the essence of intelligence.

Most companies use one of the above mentioned structures for their competitive intelligence system organization. A novel approach, not seen in the literature, would be to use the latest technologies to build a hybrid. Using this method, a company would split the networked system into as many parts as there are distinct, non-communicative divisions of the company. This method takes advantage of the human trait of only caring deeply about your own area of interest. This design only asks a division to enter data for their own primary competitive intelligence concerns. It is important to continue to keep the number of systems as low as possible, while recognizing that currently non-cooperative intelligence-needing groups will most likely still be non-cooperative in the foreseeable future.

Whereas Research and Development may have their own system, and Marketing their own, a company should make sure that other critical aspects of the system are centralized. Even with a decentralized physical data entry design, a company can still enjoy many of the benefits of a centralized system.

Voice mail and electronic mail information inputs should be directed so that competitor "hot-line" information is delivered to both (or all) systems in the company. The recipient can evaluate the information and decide whether it would be worthwhile to enter it into their system. Information from other sources that appears interesting to another system should be forwarded either physically or electronically to that system.

The software that drives the different division's databases must be identical, and must be networked together to be compatible and effective. With this design in place, any user could quickly scan logically separated databases to cross-reference interesting reports. For instance, a report in the marketing database of rumors of a competitor's lower price structure could be cross-referenced by Research and Development's database, which may report a new and less expensive manufacturing process improvement at that competitor's plant.

With a modicum of human inter-organizational cooperation and a well designed system, multiple divisions can coordinate intelligence very efficiently.

Additional Suggestions

Listed below are a variety of ideas from the literature to consider when creating an intelligence system.

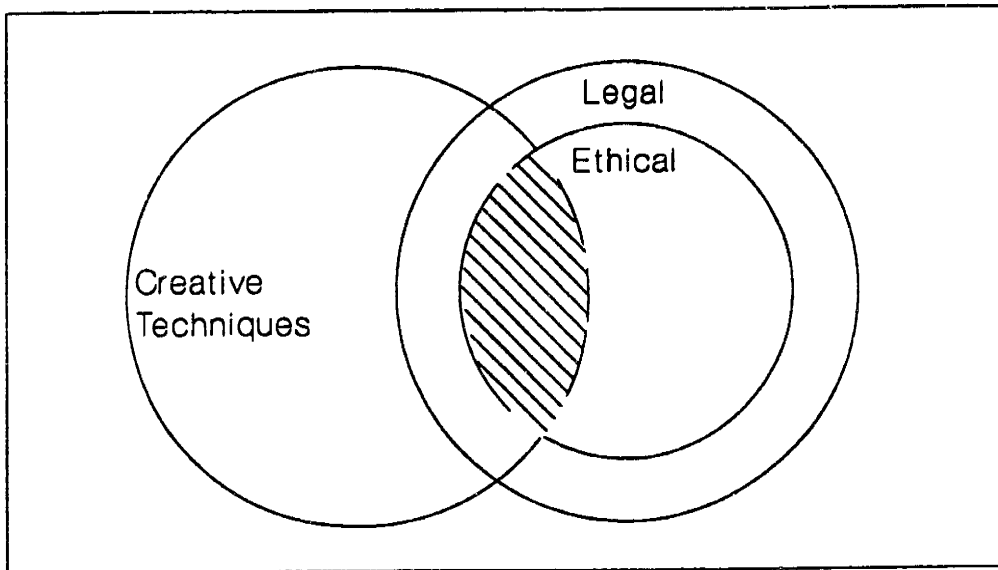
- * Start with a detailed operating plan including costs.
- * Match the effort to the major users of the data.
- * Keep track of what files are used, and discard the rest.
- * Establish clear goals both for the system and for each search.
- * Work within a realistic, approved budget.
- * Make sure the system delivers information in a timely fashion.
- * Design the system so as to add value to the data by incorporating processing capabilities.
- * Identify existing databases and do not duplicate data.
- * Organize information simply and appropriately.
- * Carefully screen the information to store.
- * Coordinate divisional files.
- * Start out small and slow.
- * Help direct data collection by telling the potential gatherers what is needed.

- * Reward the gatherers, recognize them.
- * Establish a manual system before computerizing.
- * Check your progress often.

These suggestions, when combined with the proposed methodology for creating an intelligence system, will make a powerful and effective tool for using knowledge to make better business decisions.

CHAPTER SEVEN

LEGAL AND ETHICAL CONSIDERATIONS



We live and do business in a society of laws and norms. Everything can run smoothly and quietly until a law or norm is compromised. Broken norms cause interpersonal and organizational conflict, while broken laws can trigger legal action against the offender. In gathering more than basic intelligence, a natural question arises as to whether the type of information or the method used to obtain it is legal and ethical. Moreover, could the technique in question embarrass the company or leave it vulnerable to the accusation of corporate espionage?

LEGAL ISSUES

Some forms of intelligence gathering are obviously illegal. Three special cases are watched closely. The Sherman Anti-trust Act of 1890 was enacted to prevent price fixing and avoid restraint of trade. Any pricing information passed between competitors (especially in an industry with few providers) may be construed as running afoul of the anti-trust laws. Another dangerous topic is trading stock based on non-public "material" information. The "insider-trading" rules are enforced actively. Finally, there exists a large body of law surrounding the situation of a key employee leaving one company and joining a competitor. If questions arise in any of these particular areas, competent legal advice should be sought.

In most cases, however, the law is murky. The type of gray areas often encountered are illustrated in the following hypothetical example. An employee of company A stops on Friday after work at a bar for a beer. At the next table, four employees of company B, a competitor, are discussing their business. Employee A cannot help but overhear the discussion, and learns valuable information. Should he use what he has learned in his own work?

But what if this employee tells his boss, who then instructs him to return to the bar every Friday to learn more. The

boss also may ask other employees to cover the other evenings of the week, and record their observations in written form. Additionally, would the ethical or legal nature of this intelligence gathering technique change if some of the employees begin to use small tape recorders to augment their memory of what is said or overhear pricing information? What if they discover a few pages from an pertinent report left behind by the competitor's employee, or pick up an entire briefcase?

Unfortunately, there is no well-defined body of law governing business intelligence. State law normally presides over questions of improper data collection methods, and state laws vary quite a bit. In addition, very little prosecution has taken place in this area of the law, but rapid improvement in espionage technology bodes an increase in legal activity in the future.

As in any business activity, stealing, trespassing and bribery are clearly illegal. But much of what an intelligence gatherer may want to do falls into a gray area not covered by those three terms.

In one of the few landmark cases, a company hired a pilot to fly over a new DuPont factory under construction to photograph the facility from the air. From this vantage, secret process layouts were visible. DuPont sued, and the Texas

courts found that:

One may use his competitor's secret process if he discovers the process by reverse engineering applied to the finished product; one may use a competitor's process if he discovers it by his own independent research; but one may not avoid these labors by taking the process from the discoverer without his permission at a time when he is taking *reasonable precautions to maintain its secrecy*. To obtain knowledge of a process without spending the time and money to discover it independently is improper unless the holder voluntarily discloses it or fails to take *reasonable precautions to ensure its secrecy*. [Emphasis added.]¹

While this ruling is vague and difficult to apply, it is still one of the few judgments guiding this part of the law. In effect, it is the responsibility of a company to take "reasonable precautions" to protect its secrets. The motives and techniques of those who discover any secrets, however, are quite important also in assigning legal culpability.

In general, there is a "rule of thumb" upon which many managers rely and advocate, "If you do not want to see what you are doing appear on the front page of your local newspaper, do not do it."² Some use this as a legal guide,

1. Sammon, Business Competitor Intelligence, 300.

2. Sammon, Business Competitor Intelligence, 294.

others as an ethical guide. In either case, it works fairly well because legal and ethical guides are closely linked with the changing mores of society forming and reforming the laws and their interpretation. The notes to the above mentioned DuPont case offered that:

A complete catalog of improper means is not possible. In general they are means which fall below the *generally accepted standards of commercial morality* and reasonable conduct. [Emphasis added.]¹

Therefore, most of the time the law does not give obvious answers as to the legality of the intelligence method of gathering and use. More often than not one must consult the collective conscience of the community in which one operates to discover possible legal guidelines for the gathering and use and to avoid damaging the company's reputation.

What may not necessarily be illegal may be embarrassing and possibly unethical. For instance, wining and dining a competitor's secretary in hopes of obtaining information may not be illegal, but would be considered unethical by most businesspeople.

1. Sammon, Business Competitor Intelligence, 300, citing the notes to the Restatement of Torts based upon the case *E.I. duPont deNemours & Co. v. Christopher*, 431 F.2d 1012 (5th Cir.), reh. and reh. en banc denied (1970), cert. denied, 400 U.S. 1024, reh. denied 401 U.S. 967 (1971).

ETHICAL ISSUES

In the gray areas of business ethics, there is often no consensus about whether a particular activity is right or wrong. In the absence of such a definitive position, one's competitor's and associates' interpretation of the ethicality of a technique can be a useful tool. If all companies operate within the industry standards, at least the businesses would be competing on fair and even terms, and there would be no legal or moral pressure for any one company to change their activities.

In this light, a survey was taken of the 1991 Sloan Fellows, a group of practicing managers from private and government organizations both in the United States and abroad, who's organizations sponsor them to take one year off to study management at the Massachusetts Institute of Technology.

The following questions were asked:

"In your opinion, is information gathered via the following sources:"

- (A)lways ethical
- (S)ometimes ethical
- (N)either ethical nor unethical
- (U)nethical
- (T)otally unethical

1. Published material and public documents such as court records
2. Disclosures made by a competitor's employees and obtained without subterfuge.
3. Market surveys and consultants' reports.

4. Financial reports and brokers' research surveys.
5. Trade fairs, exhibits, and competitors' brochures.
6. Analysis of a competitor's products.
7. Reports from your salesmen and purchasing agents.
8. Legitimate employment interviews with people who worked for a competitor.
9. Camouflaged questioning of a competitor's employees at technical meetings.
10. Direct observation under secret conditions.
11. False job interviews with a competitor's employee (no real intent to hire).
12. False negotiations with a competitor for license.
13. Hiring a professional investigator to obtain a specific piece of information.
14. Hiring an employee away from a competitor to get specific know-how.
15. Trespassing on a competitor's property.
16. Bribing a competitor's supplier or employee.
17. "Planting" your agent on company payroll.
18. Eavesdropping on a competitor (wiretapping, etc.).
19. Theft of drawings, samples, documents, etc.
20. Blackmail and extortion.¹

A total of thirty-four of the sample group responded, which

1. Claude W. Olney, "The Secret World of the Industrial Spy." Business and Society Review, 31, citing Worth Wade, Chemical Engineering.

represents sixty percent of the group. Based on those who volunteered their name, it seems reasonable to infer that the sample is characteristic of the total group as to their backgrounds. Roughly one-third of the respondents are managers in foreign firms, one-third in domestic private firms, and one-third in United States government positions.

Since the respondents were not asked to sign their name, and since the questionnaire was in written form, bias was minimal. However, after spending nearly a year away from the pressures of the business environment, the respondents may have leaned slightly towards a more idealistic moral position than they might have a year earlier.

THE ETHICAL TECHNIQUES

	Ethical	Unethical
1. Published material	X	
2. Disclosures by a competitor	X	
3. Market surveys	X	
4. Financial reports	X	
5. Trade fairs	X	
6. Analysis of competitor's products	X	
7. Reports from your employees	X	
8. Employment interviews	X	
9. Camouflaged questioning		X
10. Secret observation		X
13. Hiring a professional investigator	X	
14. Hiring a competitor's know-how	X	
11. False job interviews		X
12. False negotiations		X
15. Trespassing		X
16. Bribing		X
17. "Planting" your agent		X
18. Eavesdropping		X
19. Theft		X
20. Blackmail		X

Question 1:

"In your opinion, is information gathered via the following sources:"

Published material and public documents such as court records

Response

- 85% (A)lways ethical
- 9% (S)ometimes ethical
- 6% (N)either ethical nor unethical
- 0% (U)nethical
- 0% (T)otally unethical

- 94% (A)lways or (S)ometimes ethical
- 0% (U)nethical or (T)otally unethical

Consensus: **ETHICAL**

Comments: This question was used to set one end of the ethics scale, as a data-gathering technique that could be universally morally unquestionable. Statistically, the responses reflected the expected outcome, with 94% of the respondents indicating basic ethical agreement.

Question 2:

"In your opinion, is information gathered via the following sources:"

Disclosures made by a competitor's employees and obtained without subterfuge.

Response

- 41% (A)lways ethical
- 38% (S)ometimes ethical
- 18% (N)either ethical nor unethical
- 3% (U)nethical
- 0% (T)otally unethical

- 79% (A)lways or (S)ometimes ethical
- 3% (U)nethical or (T)otally unethical

Consensus: **ETHICAL**

Comments: This question has a slight trick to it, which over a third of the respondents seemed to understand or sense. The action may be ethical, but has the potential of ensnaring the company in legal ramifications if the information is used improperly.

The competitor's employee illegally may disclose vital information, which could result in a lawsuit by the competi-

tor against the scheming employee which would necessarily bring in the other company. This sort of legal activity is not only uncomfortable, but often compromises both companies' intelligence position, and is usually not worth the value of the original information.

Question 3:

"In your opinion, is information gathered via the following sources:"

Market surveys and consultants' reports.

Response

71% (A)lways ethical
15% (S)ometimes ethical
15% (N)either ethical nor unethical
0% (U)nethical
0% (T)otally unethical

85% (A)lways or (S)ometimes ethical
0% (U)nethical or (T)otally unethical

Consensus: **ETHICAL**

Comments: This question, like the first, should have caused little ethical concerns with respondents. The information is readily available. Seventy-one percent found this technique always ethical. Furthermore, the 15% who replied that the technique is (N)either ethical nor unethical were saying, in effect, that they had no ethical concerns about their use.

In any event, with a clear majority indicating no ethical

problems, this technique may be considered ethical to practice.

Question 4:

"In your opinion, is information gathered via the following sources:"

Financial reports and brokers' research surveys.

Response

79% (A)lways ethical
15% (S)ometimes ethical
6% (N)either ethical nor unethical
0% (U)nethical
0% (T)otally unethical

94% (A)lways or (S)ometimes ethical
0% (U)nethical or (T)otally unethical

Consensus: **ETHICAL**

Comments: This question basically repeats the prior question, but from a financial services perspective. With so much publicity recently of wrongdoing in this industry, one might expect a heightened alertness to ethical concerns.

However, the reverse seems to hold. Seventy-nine percent of the respondents indicated (A)lways ethical with this source, as opposed to only seventy-one percent who responded similarly to data gathered from consultants in question number three.

This apparent contradiction may be explained by the fact that these managers are more accustomed to working with financial analyst's reports than consultant's surveys of their competitors. Or perhaps because broker's research surveys are more widely available, they are considered fairer to use.

Question 5:

"In your opinion, is information gathered via the following sources:"

Trade fairs, exhibits, and competitors' brochures.

Response

82% (A)lways ethical
15% (S)ometimes ethical
3% (N)either ethical nor unethical
0% (U)nethical
0% (T)otally unethical

97% (A)lways or (S)ometimes ethical
0% (U)nethical or (T)otally unethical

Consensus: **ETHICAL**

Comments: Trade shows and competitor brochures are possibly the most often cited competitor information sources, so it was no surprise that nearly all the replies indicated no ethical problem with this type of technique. In fact, this question earned one of the highest approval ratings of all the questions asked.

Again, this strong approval epitomizes the belief that what is exhibited to the public, which is the essence of such trade shows, is fair to use.

Question 6:

"In your opinion, is information gathered via the following sources:"

Analysis of a competitor's products.

Response

74%	(A)lways ethical
26%	(S)ometimes ethical
0%	(N)either ethical nor unethical
0%	(U)nethical
0%	(T)otally unethical
100%	(A)lways or (S)ometimes ethical
0%	(U)nethical or (T)otally unethical

Consensus: **ETHICAL**

Comments: Analysis of a competitor's products was the only method in the survey which garnered a one hundred percent (A)lways or (S)ometimes ethical rating. The seventy-four percent who considered this technique always an ethical one reflect the same perspective that objects in the market place may be studied fairly, similar to the trade show example. Unlike the trade show situation, however, several questions seem to have arisen about the propriety in all situations of analyzing the product of a competitor as

indicated by the twenty-six percent who found such analysis only sometimes ethical and the lack of any responses in the neither ethical nor unethical categories.

A topic for further research lies in the perspective of the twenty-six percent who indicated that this technique is only "sometimes" ethical, suggesting that there are situations when it would not be ethical.

Question 7:

"In your opinion, is information gathered via the following sources:"

Reports from your salesmen and purchasing agents.

Response

62%	(A)lways ethical
35%	(S)ometimes ethical
3%	(N)either ethical nor unethical
0%	(U)nethical
0%	(T)otally unethical
97%	(A)lways or (S)ometimes ethical
0%	(U)nethical or (T)otally unethical

Consensus: **ETHICAL**

Comments: A majority of respondents found this technique always ethical or neither unethical nor ethical. The remainder selected sometimes ethical again perhaps because such reports may not have been messages sent by the competitor to the marketplace as in the case of a trade show or a

product, but rather information inappropriately obtained.

An example of such reports being sensitive is in the case of Credit managers from different companies who often share information among themselves about customers and their own companies, in what is considered a professional, confidential manner. Sometimes this information is of value to others in their organization. They neither want to disadvantage their own company, nor compromise their professional reputation and ethical stature among the other credit managers in the industry with whom they trade information.

Employers should be aware of this problem and offer a clear response plan to share but not misuse the information.

Question 8:

"In your opinion, is information gathered via the following sources:"

Legitimate employment interviews with people who worked for a competitor.

Response

44% (A)lways ethical
32% (S)ometimes ethical
12% (N)either ethical nor unethical
12% (U)nethical
0% (T)otally unethical

76% (A)lways or (S)ometimes ethical
12% (U)nethical or (T)otally unethical

Consensus: **ETHICAL**

Comments: Information from a legitimate interview was found ethically gathered by a majority, combining the "always" and "neither" responses. The notion is that it is ethical to interview an competitor's ex-employee for hire because it is as if that competitor has returned this ex-employee to the marketplace. At the same time, however, this question evoked a thirty-two percent response that using such an interview to learn about competitors is sometimes unethical and a twelve percent response that it is unethical. The fact that this technique evoked the twelve percent unethical response suggests that even legitimate interviews should be handled with a modicum of sensitivity to ethical considerations.

The difficulty in separating the concept of legitimate employment interviewing and gathering competitor information using same tended to spread the responses out over a broad range. The wide spread of responses may have resulted from some mis-interpretation of the question rather than ethical valuation concerns.

THE QUESTIONABLE TECHNIQUES

	Ethical	Unethical
1. Published material	X	
2. Disclosures by a competitor	X	
3. Market surveys	X	
4. Financial reports	X	
5. Trade fairs	X	
6. Analysis of competitor's products	X	
7. Reports from your employees	X	
8. Employment interviews	X	
9. Camouflaged questioning		X
10. Secret observation		X
13. Hiring a professional investigator	X	
14. Hiring a competitor's know-how	X	
11. False job interviews		X
12. False negotiations		X
15. Trespassing		X
16. Bribing		X
17. "Planting" your agent		X
18. Eavesdropping		X
19. Theft		X
20. Blackmail		X

Question 9:

"In your opinion, is information gathered via the following sources:"

Camouflaged questioning of a competitor's employees at technical meetings.

Response

- 6% (A)lways ethical
- 26% (S)ometimes ethical
- 21% (N)either ethical nor unethical
- 44% (U)nethical
- 3% (T)otally unethical

- 32% (A)lways or (S)ometimes ethical
- 47% (U)nethical or (T)otally unethical

Consensus: none

Comments: This question was one of the most controversial in the survey. Use of this technique is common, and many companies specifically brief their departing technical employees about lines of questioning for their peers at upcoming technical conferences.

An assumption is that the word "camouflaged" steered many to respond "unethical". Ostensibly a more straightforward approach to asking questions would carry no such ethical concerns. A sense of "fair play" and openness must be present for a technique for gathering information to be considered ethical - such as the trade show situation or the product review. Here, the employee is placed in the marketplace of ideas, so there is probably no legal problem even if it is unethical. However, caution should be exercised if the company is concerned about their reputation in their community.

Question 10:

"In your opinion, is information gathered via the following sources:"

Direct observation under secret conditions.

Response

3%	(A)lways ethical
12%	(S)ometimes ethical
9%	(N)either ethical nor unethical

56% (U)nethical
21% (T)otally unethical

15% (A)lways or (S)ometimes ethical
76% (U)nethical or (T)otally unethical

Consensus: **UNETHICAL**

Comments: Most of the participants felt this technique was unethical, seemingly objecting to the concept of "secret" rather than the idea of direct observation because direct observation of a trade show or product analysis was perceived as ethical by comparison. The presence of secret conditions again seems to offend the participants' sense of fairness, pushing their evaluation well into the unethical end of the spectrum. Unlike the mild unethical response in the case of camouflaged questions in a public forum however, direct view in a secret situation was found strongly unacceptable. This finding probably parallels the conclusions about the legality of such a secret method. Specifically, it is likely such a technique could be illegal.

Further questioning of those who responded (A)lways, (S)ometimes or (N)either might have generated interesting responses. Further study is needed to flush out those perspectives and deal directly with the more difficult controversies surrounding ethics.

Question 13:

"In your opinion, is information gathered via the following sources:"

Hiring a professional investigator to obtain a specific piece of information.

Response

6%	(A)lways ethical
47%	(S)ometimes ethical
24%	(N)either ethical nor unethical
12%	(U)nethical
12%	(T)otally unethical
53%	(A)lways or (S)ometimes ethical
24%	(U)nethical or (T)otally unethical

Consensus: **ETHICAL**

Comments: The insinuation of those responding "unethical" or "totally unethical" is that the hired investigator will engage in unethical activity. Almost one-fourth of those surveyed indicated this judgment on professional information collectors, which is surprising.

Professional investigators can range from librarians to shadowy figures in the dark. Typical investigators actually spend most of their professional time searching through public records and asking people questions, both eminently ethical activities as discussed in conjunction with the previously mentioned methods found to be ethical, such as trade shows, product analysis, etc.

Question 14:

"In your opinion, is information gathered via the following sources:"

Hiring an employee away from a competitor to get specific know-how.

Response

15% (A)lways ethical
24% (S)ometimes ethical
32% (N)either ethical nor unethical
26% (U)nethical
3% (T)otally unethical

39% (A)lways or (S)ometimes ethical
29% (U)nethical or (T)otally unethical

Consensus: none

Comments: This method scored the highest controversy of any in the survey, perhaps because it is a known common practice and widely publicized and debated. The results were not clear enough to draw a consensus opinion, however the responses clearly leaned toward the ethical end of the spectrum.

Most of those who considered this technique unethical also considered the use of a professional investigator unethical. This could indicate a sub-group with different ethical judgments from the rest of the sample.

THE UNETHICAL TECHNIQUES

	Ethical	Unethical
1. Published material	X	
2. Disclosures by a competitor	X	
3. Market surveys	X	
4. Financial reports	X	
5. Trade fairs	X	
6. Analysis of competitor's products	X	
7. Reports from your employees	X	
8. Employment interviews	X	
9. Camouflaged questioning		X
10. Secret observation		X
13. Hiring a professional investigator	X	
14. Hiring a competitor's know-how	X	
11. False job interviews		X
12. False negotiations		X
15. Trespassing		X
16. Bribing		X
17. "Planting" your agent		X
18. Eavesdropping		X
19. Theft		X
20. Blackmail		X

Question 11:

"In your opinion, is information gathered via the following sources:"

False job interviews with a competitor's employee (no real intent to hire).

Response

- 0% (A)lways ethical
- 6% (S)ometimes ethical
- 0% (N)either ethical nor unethical
- 56% (U)nethical
- 38% (T)otally unethical

- 6% (A)lways or (S)ometimes ethical
- 94% (U)nethical or (T)otally unethical

Consensus: **UNETHICAL**

Comments: With almost no disagreement, this technique was seen to be unethical or totally unethical. The explicit mention of deceit generated the basis for the aversion to this methodology reaffirming the need for fairness for a method to be ethical. In question eight a similar scenario was presented with an ex-employee and without the element of deceit, and was considered ethical.

Question 12:

"In your opinion, is information gathered via the following sources:"

False negotiations with a competitor for license.

Response

0%	(A)lways ethical
3%	(S)ometimes ethical
3%	(N)either ethical nor unethical
59%	(U)nethical
35%	(T)otally unethical
3%	(A)lways or (S)ometimes ethical
94%	(U)nethical or (T)otally unethical

Consensus: **UNETHICAL**

Comments: Again, the obvious element of deceit generates ethical objections to this technique as well as the last one. Inferred from this is the value we place on trust in business situations. When that trust is misused, we cry foul. In this scenario, the result is likely a transfer of

intellectual property based on premeditated and improper intent.

Question 15:

"In your opinion, is information gathered via the following sources:"

Trespassing on a competitor's property.

Response

0%	(A)lways ethical
0%	(S)ometimes ethical
3%	(N)either ethical nor unethical
47%	(U)nethical
50%	(T)otally unethical
0%	(A)lways or (S)ometimes ethical
97%	(U)nethical or (T)otally unethical

Consensus: **UNETHICAL**

Comments: Since trespassing is known to be illegal, a ninety-seven percent negative response was expected. However, notice that about the same number of people answered (U)nethical as (T)otally unethical. This indicates that it is not as objectionable as later questions, with far greater (T)otally unethical response rates.

Question 16:

"In your opinion, is information gathered via the following sources:"

Bribing a competitor's supplier or employee.

Response

0%	(A)lways ethical
0%	(S)ometimes ethical
0%	(N)either ethical nor unethical
24%	(U)nethical
76%	(T)otally unethical
0%	(A)lways or (S)ometimes ethical
100%	(U)nethical or (T)otally unethical

Consensus: **UNETHICAL**

Comments: Use of the word "bribe" virtually guaranteed a collective response of "unethical" to this question. There is a complex intermesh of favors, checks and balances in the relationship between purchasing and sales agents which easily can promote unethical information exchange from just an innocent question. The best suppliers' agents are resolute never to discuss one customer in the presence of another.

Question 17:

"In your opinion, is information gathered via the following sources:"

"Planting" your agent on company payroll.

Response

- 0% (A)lways ethical
- 0% (S)ometimes ethical
- 3% (N)either ethical nor unethical
- 35% (U)nethical
- 61% (T)otally unethical

- 0% (A)lways or (S)ometimes ethical
- 97% (U)nethical or (T)otally unethical

Consensus: **UNETHICAL**

Comments: This technique basically refers to the concept of spying, or at least hiring a spy. Although almost ten percent of the sample did not answer this question (probably due to confusion over the word "plant"), those that did soundly rejected the method, with as many as sixty-one percent choosing totally unethical. This majority who felt particularly offended may have reacted so strongly because not only is deceit involved, but there is also an invasion into the most private area of the competitor in contrast to the ethical techniques of gathering information readily available in the public arena of the marketplace, trade shows, brochures, products, etc.

Question 18:

"In your opinion, is information gathered via the following sources:"

Eavesdropping on a competitor (wiretapping, etc.).

Response

- 0% (A)lways ethical
- 3% (S)ometimes ethical
- 0% (N)either ethical nor unethical
- 24% (U)nethical
- 73% (T)otally unethical

- 3% (A)lways or (S)ometimes ethical
- 97% (U)nethical or (T)otally unethical

Consensus: **UNETHICAL**

Comments: The one respondent who offered that eavesdropping on a competitor might sometimes be ethical couched the comment with the suggestion that while attending a trade show, eavesdropping is fair game. All others saw this technique as either unethical or totally unethical. Seventy-three responded most vehemently that this method is totally unethical.

Question 19:

"In your opinion, is information gathered via the following sources:"

Theft of drawings, samples, documents, etc.

Response

- 0% (A)lways ethical
- 0% (S)ometimes ethical
- 0% (N)either ethical nor unethical
- 18% (U)nethical
- 82% (T)otally unethical

- 0% (A)lways or (S)ometimes ethical
- 100% (U)nethical or (T)otally unethical

Consensus: **UNETHICAL**

Comments: Here use of the word "theft" galvanizes the respondents to the unethical end of the spectrum. The presence of culpability in addition to the uninvited invasion of the competitor result in the unethical conclusion. The overwhelming response to this query was quite pure in its rejection.

Question 20:

"In your opinion, is information gathered via the following sources:"

Blackmail and extortion.

Response

0%	(A)lways ethical
0%	(S)ometimes ethical
0%	(N)either ethical nor unethical
15%	(U)nethical
85%	(T)otally unethical
0%	(A)lways or (S)ometimes ethical
100%	(U)nethical or (T)otally unethical

Consensus: **UNETHICAL**

Comments: This question was used to set the other end of the ethics scale, as a data gathering technique that could be universally morally abhorrent. Statistically, the responses reflected the expected outcome, with 100% of the respondents indicating their ethical disagreement.

SURVEY SUMMARY

A few of the respondents explicitly wrote on their surveys that they did not see ethics answers in shades of gray and therefore did not agree with a distinction between "Unethical" and "Totally unethical" behavior. At first this position seemed simplistic and possibly dogmatic. However, upon further reflection, this differing view could be explained by the answer to the difficult question of ethics itself: Who **decides** what is ethical?

Does each person make that decision for himself, or does the "community standard" establish a de-facto position? Furthermore, without a clear manifestation of a community standard, who evaluates the community standard? Or do community, national, ecclesiastic or business leaders set the standards? If ecclesiastic, which religion, and how does morality differ from ethicality?

The respondents who indicated their "black or white" position would seem to answer ethical questions on their own, while those who see shades of gray likely feel that ethics are a reflection of "community standards," an imperfect group decision process, and therefore difficult to correctly ascertain.

This discrepancy in viewpoint on the basis of ethical deci-

sion making is exacerbated by the survey participants' great diversity of backgrounds, cultures, and ages. They also represent a variety of organizational types and sizes. Some were from the West Coast, and some from the East and Midwest. A few were from abroad including Latin America, Canada, Europe, Australia and the Far East. Some managers were from non-profit or governmental organizations, and some were from private industry.

Even with this vast array of differences, the results of the questionnaire were quite similar for most of the questions. There was strong agreement (greater than 93% of the respondents) with the answers to sixteen out of the twenty questions. Gathering data available from the information, product, or employee marketplace was widely seen as ethical. Gathering data using deceit or by breaking laws was equally widely seen as unethical. The diversity of the responses to the remaining four questions provide opportunity for further discussion.

Hiring a professional investigator, hiring competitor's know-how, camouflaged questioning, and secret observation techniques gained mixed reviews. In each there exists either some element of possible deceit or the potential for deceit (in the case of the private investigator). The gauges of ethical behavior in these cases seems to be honesty and deceit. If the giver of information would not con-

sider himself "tricked", but rather understood the transaction and participated freely, there would be no cause for the accusation of impropriety.

The ethics question would not be so interesting if so much money and business opportunity were not at or near the edge of the law and the edge of ethical behavior. Minute changes in the law activate the opportunist instinct of the free market system to search for profit windows. The human desire for profit leads businesspeople to the edge of the law and continually challenges the concept of ethics.

When technology or society changes, ethics serve as a forerunner of law. Ethics is often a stricter guideline than law in the United States, but it does indeed hint at both which laws may be challenged or enacted, and how laws may change. If one company engages in behavior which the rest of the industry deems unethical and unfair, efforts will be made to change the laws to make that behavior illegal. However, laws are based on the feelings of the majority, and ethics may or may not be so decided.

When a company acts in the "gray" zone of ethical and legal uncertainty, they accept the risk and potential reward of the gamble. If a law is later enacted which clarifies the activity as legal, the company could possibly still be seen by the community as operating unethically. If the courts

instead decide that the company's activities were illegal, the community would almost certainly judge the firm unethical.

The judgment is important because the person or firm deemed unethical is often scorned by business and society. The community of current and future customers, employees, suppliers and financiers generally become disturbed and cautious in any future dealings with the firm. One negative judgment also encourages other investigations of a firm's activities, which is counter-productive at best.

For these reasons, businesses have promulgated the use of "rules of thumb" which provide direction for the businessperson when treading on unknown ground. Since it is very difficult for anyone to accurately know the law and predict its changes, the promotion of general guidelines of behavior is critical. The often mentioned "rule of thumb" which guides activity in the area of competitive intelligence was mentioned earlier, but because of its importance and usefulness, it is repeated here. "If you do not want to see what you are doing appear on the front page of your local newspaper, do not do it."¹

Happily, an enlightened, creative information seeker does

1. Sammon, *Business Competitor Intelligence*, 294.

not have to resort to illegal or unethical behavior to discover vital information. In fact, Leonard Fuld, when discussing the value of easily available intelligence notes that:

In nine out of ten cases, you can find the vital details about your competitor *if you know where to look.*[Emphasis added.]¹

In the creative search portion of this study, enough legal and ethical information sources were presented to solve almost any quest. The wise company makes sure that its employees know enough about the process to accomplish intelligence tasks legally and ethically.

1. Fuld, Competitor Intelligence, 18.

CONCLUSIONS

Companies who have embraced the intelligence system have found that knowledge can be very profitable, while a lack of knowledge leaves a company needlessly open to attack. While business grows ever more competitive, no company can afford to ignore and misunderstand their rivals. An effective competitor intelligence effort is now well within the means of most all companies. Those without a good system should create one without delay.

Those businesses with "hidden" competitors simply require more competitor intelligence effort and resources. Any firm can be tracked and monitored.

The first, and often subsequent competitor intelligence efforts involves a search for a particular bit of intelligence upon which to make a decision.

Before beginning a search, a company should understand the industry and its own peculiar language. The company should also understand how competitor information flows, and the importance of timeliness.

A search begins the basic techniques, from sources easily available by phone or in the library. If those sources do

not answer the question, the company should move to the more creative sources that correspond to the type of question pursued.

For a long-term solution, develop a system to organize and report the competitor information gathered. After working with a simple, manual system, consider computerizing if the volume of information builds beyond easy control. The hardware and software costs of efficiently automating such a process has dropped dramatically over the last few years, and additional technological features like electronic mail can make the system easy for many to use.

Energize employees to contribute to the program by giving direction and incentives. Share the intelligence regularly through readable and visually exciting newsletters.

Finally, information gathering can be accomplished by legal and ethical means. The creative and honorable searcher needs not stoop to espionage.

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Appendix A: EXAMPLE: SEARCH REQUEST FORM¹

STRATEGIC INFORMATION
Statement of Intent

Title: Project No.:
Groups: Routing:
Line(s) of Business:
Project Originator:
Project Manager:
Needed by:
Hours to Complete:
External Cost:

I. ISSUES/BUSINESS QUESTION ADDRESSED:

II. PROJECT OBJECTIVES:

A. Primary Objective:

B. Secondary Objectives:

III. WHAT DECISION(S) COULD BE AFFECTED BY THIS PROJECT?

IV. PROJECT TEAM

Name: Organization:

V. PROJECT TIME LINE

Start Date:
Design Complete:
Execution/Analysis Complete:
Management Report/Presentation:
Documentation Complete:

1. Fuld, Monitoring the Competition, 151-152.

Appendix B: ETHICS SURVEY

Date: 3/10/91

Memo to: SLOAN FELLOWS
From: DAVID PEASE
Topic: THESIS SURVEY

Would you please take a minute and respond to this survey? The topic is ethics in gathering business intelligence. Thanks.

In your opinion, is information gathered via the following sources:

- (A)lways ethical
- (S)ometimes ethical
- (N)either ethical nor unethical
- (U)nethical
- (T)otally unethical

- Published material and public documents such as court records
- Disclosures made by a competitor's employees and obtained without subterfuge.
- Market surveys and consultants' reports.
- Financial reports and brokers' research surveys.
- Trade fairs, exhibits, and competitors' brochures.
- Analysis of a competitor's products.
- Reports from your salesmen and purchasing agents.
- Legitimate employment interviews with people who worked for a competitor.
- Camouflaged questioning of a competitor's employees at technical meetings.
- Direct observation under secret conditions.
- False job interviews with a competitor's employee (no real intent to hire).
- False negotiations with a competitor for license.
- Hiring a professional investigator to obtain a specific piece of information.
- Hiring an employee away from a competitor to get specific know-how.
- Trespassing on a competitor's property.
- Bribing a competitor's supplier or employee.
- "Planting" your agent on company payroll.
- Eavesdropping on a competitor (wiretapping, etc.).
- Theft of drawings, samples, documents, etc.
- Blackmail and extortion.

Appendix C: ETHICS SURVEY - DATA

QUESTION NUMBER

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
A	A	S	S	S	S	A	A	U	U	U	U	S	A	U	U		U	U	U
A	A	A	A	A	A	A	A	S	S	U	U	S	S	U	U	U	S	T	T
A	A	A	A	A	A	A	N	U	T	T	T	T	U	T	T	T	T	T	T
N	S	A	A	A	A	S	S	U	T	T	T	N	U	T	T	T	T	T	T
A	A	A	A	A	A	A	A	U	U	U	S	S	S	U	U	U	U	U	U
A	A	A	A	A	A	A	S	S	U	T	T	S	S	U	T	T	T	T	T
N	N	N	N	N	S	S	U	N	U	T	U	T	N	T	T	T	T	T	T
A	A	A	A	A	S	S	S	U	T	T	U	N	U	T	T	T	T	T	T
A	S	N	S	A	S	A	U	U	U	S	T	S	S	T	T	T	T	T	T
S	S	A	A	A	A	A	A	U	S	U	U	S	S	T	T	T	T	T	T
A	S	A	A	A	A	A	S	U	U	T	T	N	U	T	T	N	T	T	T
A	N	A	A	A	A	A	A	N	N	U	U	N	U	T	T	T	T	T	T
A	A	A	A	S	A	S	A	S	U	U	U	S	S	U	T		T	T	T
A	N	A	S	A	A	A	U	N	N	T	T	T	T	T	T	T	T	T	T
A	S	N	A	S	S	S	S	U	N	U	U	A	N	T	T	T	T	T	T
A	S	S	S	S	S	S	S	S	U	U	U	S	N	T	T	T	T	T	T
A	A	A	A	A	A	A	N	N	U	T	T	U	S	T	T	T	T	T	T
A	U	N	N	A	A	A	A	T	T	T	T	U	N	T	T	T	U	T	T
A	S	A	A	A	A	A	A	S	U	U	U	S	A	U	U	U	U	U	U
S	S	S	A	A	A	A	A	N	U	U	U	S	N	U	U	U	T	T	T
S	S	N	S	S	S	S	S	S	U	S	U	S	N	T	T	T	T	T	T
A	S	A	A	A	A	A	A	S	S	U	U	S	N	N	T	U	T	T	T
A	N	A	A	A	A	S	U	S	T	T	T	S	N	U	T	T	T	T	T
A	A	A	A	A	A	A	S	U	T	T	T	N	N	U	T			T	T
A	S	A	A	A	A	A	S	S	U	T	T	S	N	U	T	U	U	T	T
A	S	A	A	A	A	S	S	U	U	U	U	N	N	U	T	T	T	T	T
A	N	S	A	A	A	S	S	U	U	U	U	U	U	T	T	T	T	T	T
A	N	S	A	A	A	S	A	N	T	T	T	T	U	T	T	T	T	T	T
A	A	A	A	A	A	A	A	U	A	U	U	A	A	U	U	U	U	U	U
A	A	A	A	A	A	A	A	A	U	U	U	S	A	U	T	U	T	T	T
A	A	A	A	A	A	S	N	U	U	U	U	N	S	U	T	U	U	U	T
A	A	A	A	A	A	A	A	U	U	U	U	U	U	U	U	U	T	T	T
A	S	A	A	A	S	N	N	N	U	U	U	N	U	T	T	T	T	T	T
A	A	A	A	A	A	A	A	A	S	U	U	S	A	U	U	U	U	U	U

Appendix C Cont.: ETHICS SURVEY - DATA

	QUESTION #																			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
RESPONSE TOTALS																				
A	29	14	24	27	28	25	21	15	2	1				2	5					
S	3	13	5	5	5	9	12	11	9	4	2	1	16	8					1	
N	2	6	5	2	1		1	4	7	3		1	8	11	1		1			
U		1						4	15	19	19	20	4	9	16	8	11	8	6	5
T									1	7	13	12	4	1	17	26	19	24	28	29
#	34	34	34	34	34	34	34	34	34	34	34	34	34	34	34	34	31	33	34	34

RESPONSE TOTALS BY PERCENT																				
A	85%	41%	71%	79%	82%	74%	62%	44%	6%	3%	0%	0%	6%	15%	0%	0%	0%	0%	0%	0%
S	9%	38%	15%	15%	15%	26%	35%	32%	26%	12%	6%	3%	47%	24%	0%	0%	0%	3%	0%	0%
N	6%	18%	15%	6%	3%	0%	3%	12%	21%	9%	0%	3%	24%	32%	3%	0%	3%	0%	0%	0%
U	0%	3%	0%	0%	0%	0%	0%	12%	44%	56%	56%	59%	12%	26%	47%	24%	35%	24%	18%	15%
T	0%	0%	0%	0%	0%	0%	0%	0%	3%	21%	38%	35%	12%	3%	50%	76%	61%	73%	82%	85%
AS	94%	79%	85%	94%	97%	100%	97%	76%	32%	15%	6%	3%	53%	38%	0%	0%	0%	3%	0%	0%
UT	0%	3%	0%	0%	0%	0%	0%	12%	47%	76%	94%	94%	24%	29%	97%	100%	97%	97%	100%	100%