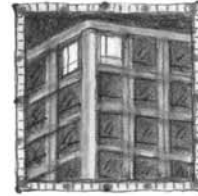


# EARLY WARNING INDICATORS

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As I wrote this article, a news alert popped up on my screen announcing that the US Senate Banking Committee voted in favor of confirming Ben Bernanke to a second term as Federal Reserve chief, despite sharp attacks on his role in the 2008 global financial meltdown. The sharpest attack came from Senator Jeff Merkley of Oregon who publicly stated that Bernanke:

*failed to recognize or remedy the factors that paved the road to this dark and difficult recession... For too many years, federal regulators turned a blind eye to signs of an impending financial crisis, Dr. Bernanke failed to take the necessary precautionary steps that could have averted or mitigated financial collapse.*  
(<http://bit.ly/8xXxmA>)

Whether it was turning a blind eye or failing to see the signals is a question that remains for the pundits to answer, but either situation suggests a breakdown in the Federal Reserve's early warning system. The Great Recession of 2008, which seems to be bleeding into 2010, has been a wake up call for the government and certainly for any of us in an intelligence role. Monitoring signals indicating an impending economic crisis and acting on those signals in a timely manner could have been instrumental in setting appropriate financial policies to prevent or minimize the impact of the downturn we are experiencing.

Certainly, creating an early warning system is difficult and a time-consuming process. Approaching it in a methodical fashion helps make it a less overwhelming task. When developing an early warning system, the key first step is to identify the relevant signals or indicators tied to warning needs which is the focus of this column. An early warning mechanism is made possible by the ability of a competitive intelligence (CI) analyst to identify and monitor early warning indicators – diagnostic signposts of future market conditions. Developing indicators for an early warning function involves three critical and distinct steps:

- Identify warning needs.
- Generate indicator list.
- Develop collection plan.

## IDENTIFY WARNING NEEDS

Like all effective competitive intelligence functions, the early warning effort must be demand-driven. Defining the set of early warning intelligence requirements determines the relative importance of each monitoring effort. Creating a focused set of early warning issues helps manage the scope of your early warning function. Otherwise, it can quickly morph into an all consuming “environmental scanning” effort which can collapse under the weight of unmanageable information volumes, unclear outcomes, spiraling budgets, and frustrated analysts.

A sound warning program begins by acknowledging that it is impossible to know everything. Therefore, your early warning effort should focus on anticipating those events and circumstances whose existence creates the greatest implications for your organization. Competitive surprises come from just about anywhere, but if the impact of an unforeseen event is minimal, it's much more effective to spend scarce resources tracking and analyzing those events that really matter.

To identify the events which present the greatest opportunities and threats for your organization, speak to your intelligence customers. In the book *Peripheral Vision*, authors George Day and Paul Schoemaker suggest a simple set of questions to identify those signals right in front of you that

### SIDEBAR 1: QUESTIONS TO IDENTIFY EXISTING SIGNALS

#### **Examine the Present**

What important signals are you rationalizing away?  
What are your mavericks and outliers trying to tell you?  
What are peripheral customer and competitors really thinking?

#### **Envision New Futures**

What future surprises could really hurt (or help) us?  
What emerging technologies could change the game?  
Is there an unthinkable scenario?

you are not recognizing. A sample of them is in sidebar 1.

These suggestions will help you avoid casting too wide a net, or developing warning requirements that are not decision-relevant.

**Warning issues relate to clear decision options.** There's no point in providing warning about an event or condition the company can do nothing about. For each warning issue you identify, work with management to determine what likely corporate decision or action its existence would prompt. If you have difficulty envisioning how the organization could respond to warning on a particular topic, reconsider whether it qualifies as a valid warning topic.

**Intelligence can be collected on the warning issue.** As you work with management to define warning targets, ask yourself whether or not the information exists that would enable you to comment and assess an issue. Intelligence could be difficult to obtain for warning topics dealing with competitor long-term R&D plans or investment strategies, especially information available early enough for you to issue a timely and credible warning communication.

## GENERATE AN INDICATOR LIST

Before competitive threats and opportunities emerge, they commonly emit early warning notifications or indicators. Indicators are observable events or actions that signal the emergence of favorable or unfavorable business conditions. Note that indicators are a guide to what may occur, not a certainty that it will actually happen.

Indicators are the defining ingredients for early warning monitoring and intelligence collection. Because indicators are observable, they can be "acquired" – that is, seen and captured – through routine intelligence collection methods. The challenge is to identify those indicators that can reliably indicate the types of future business conditions which carry the greatest implications for your company. Those external factors or forces must have the potential to impact your company's strategy in some material way. See sidebar 2 for ways to develop indicators.

Even if a company could "monitor everything," producing effective early warning analysis would be nearly impossible due to the extreme overabundance of information. Given the quantity of information available on most business issues, identifying a focused set of indicators can be a challenge but is a necessary activity.

No hard and fast guides define indicators. For publically traded companies or issues that receive abundant press coverage, indicators will be abundant. For privately held companies or relatively obscure or highly technical issues, indicators are harder to identify.

Be careful to separate indicators from noise. Noise can include irrelevant facts that distract attention from what is

## SIDEBAR 2: HOW TO DEVELOP INDICATORS

Here's three ways to identify the core set of indicators that deserve monitoring:

**Analyze key business trends** that impact your strategy, and identify what information you would expect to see that would likely define the trend, its evolution, and market impact.

**Create future scenarios** that describe future business conditions. Identify the specific events that would have to occur between today and the timeframe represented by your scenarios for those scenario conditions to materialize.

**Use your own company analogies.** Ask what your organization would have to do to create the future condition you are monitoring for early warning.

really occurring. For such challenging situations, apply your own common sense and hunches. As you acquire experience analyzing a particular company or covering a certain issue, you will develop a honed sense of what actions to expect or how conditions may develop. Your own "gut feel" over time can become as valid a source of indicators as most others.

### Indicator Attributes

Each indicator carries certain attributes that make some more valuable than others. As you create indicators, prioritize them based on their potential effectiveness to provide sufficient warning of important future developments or events. Evaluate the diagnostic value of indicators by:

- The types of events to which they relate
- The warning time they provide
- Their probability of occurrence or non-occurrence
- Their stability
- Their reliability
- Their acquisition cost

## DEVELOP A COLLECTION PLAN

The challenge in developing a useful indicator list and collection plan is identifying accurate sources of those indicators. Many sources exist for indicator monitoring – published and human, internal and external – and as you develop experience with a warning problem, you will identify other relevant sources. In practice, the value of specific sources will vary from company to company or issue to issue.

Once established, the indicator lists help you monitor the most diagnostic observables, and allow for more timely

**TABLE 1. INDICATOR LIST AND COLLECTION PLAN**

Early Warning Topic	Indicators	Acquisition Strategy/ Sources	Observed/Collected?
Competitor X pricing strategy; future price wars	Competitor financials, especially margins	10K, 10Q	Yes
	Market demand	Mystery shopping, Nielsen, sales reps	In process
	Supply / product availability	Supply chain manager	No

warning. If correctly identified, collected, and analyzed, these lists improve the development and accuracy of decisions and strategies that capitalize on opportunities and defend against threats. An indicator list and collection plan should include:

- The early warning topic and links for each indicator to a larger business issue, driver, or trend that carries significant implications for your strategy.
- A brief description of each indicator against which you are collecting.
- An acquisition strategy listing one or more sources – published and human, internal and external – which are likely to report on the indicator.
- A tracking mechanism to determine whether the CI team succeeded in observing or collecting the appropriate indicator information.

See Table 1 for a sample of an abbreviated indicator collection plan.

An indicator collection plan can help the CI analyst and their team to more effectively manage the indicator monitoring. In addition, validation and verification from more than one source makes a stronger case for early warning when indicators emerge. Indicators require updating as company needs and circumstances change.

Following the three steps described in this article are the initial tasks for establishing a warning system. The next steps in delivering effective early warning are utilizing the appropriate analysis and communication capabilities to produce and disseminate an effective warning deliverable (a separate topic for a future SCIP column).

### IN CLOSING

One of the most valuable benefits of implementing a competitive intelligence function is creating the ability to warn of developing events that can affect a company's interests or competitiveness in a positive or negative way. However, the process of providing credible and timely warning is complex and requires time and diligence to create. This column provides a starting point for intelligence practitioners to pave the way for an early warning mechanism.

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