

# Ostriches & Eagles

## Competitive Intelligence Usage & Understanding in U.S. Companies

A Report by



OUTWARD  
INSIGHTS™

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## Executive Summary

Competitive Intelligence (CI) continues to be valued as a necessary and important tool for competitive strategy development, according to Outward Insights' 2008 *Ostriches & Eagles* study. As a follow-up to the 2005 study, Outward Insights conducted an almost identical survey this year to analyze the use of competitive intelligence across a range of industries. In almost every instance, the study found the percentage of companies practicing competitive intelligence effectively has risen.

Despite these gains, however, structural deficiencies persist in how companies manage competitive intelligence functions, suggesting that gains could be short-lived. For example, more than two-fifths of companies surveyed believe that competitive intelligence is not sufficiently funded and nearly one-fourth believe that competitive intelligence teams don't have enough clout to be successful.

Among other key findings:

- The use of scenario planning as an exercise regularly practiced by companies has nearly doubled since 2005.
- For the previous 14 years, since the study was first conducted by The Futures Group in 1995, "financial goals met" had been the most common measurement of intelligence effectiveness. That all changed this year as "actions taken" jumped from 3<sup>rd</sup> to 1<sup>st</sup> in popularity among respondents.
- Roche and IBM tie as the top "eagles," the best corporate intelligence users, according to the respondents, taking over the number one spot from Bank of America.
- Almost a full quarter of companies surveyed still have yet to develop an organized and systematic way to deliver competitive intelligence to company decision makers.

**Methodology:** Outward Insights' survey was conducted in June and July 2008. The survey consisted of telephone interviews with 100 senior executives at U.S. corporations in the manufacturing, financial services, insurance, hi-tech, pharmaceutical, energy and consumer products industries. More than two-thirds of the participants had revenues of \$1 billion or greater.

## General Findings

### Intelligence is Seen as a Business Necessity

In the last three years, competitive intelligence, as a business strategy, has been pushed further into the spotlight. However, the 76% of companies that have an organized and systematic way to deliver CI to company decision-makers represent only a 7% increase since 2005. While the increase may seem marginal, the way companies are using and understanding CI has changed significantly.

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**COMMENTARY:**

*The survey results demonstrate that senior decision-makers continue to value competitive intelligence and now also consider having a CI function in their organizations a necessity. Competitive intelligence is a required business function essential to achieving and maintaining competitive leadership.*

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A full 24% of respondents admitted they do not have “an organized and systematic way to deliver competitive intelligence,” including 24% of the respondents with more than \$1 billion in revenues. Of those lacking “an organized way,” insufficient personnel resources is the most common reason across industries, which seems to be an increasing problem (41% total this year, compared to 35% total in 2005). The most significant change, however, was that only 8% said they don’t have an organized delivery system because they do not have a need for one, compared to 28% in 2005, a 71% change.

**COMMENTARY:**

*While it’s surprising that one-quarter of companies surveyed still do not have an organized means to deliver competitive intelligence to their top decision-makers, we are encouraged by the dramatic change in the reasons cited for not having such a capability. No longer are companies blind to the need for a capability to monitor and assess competitive conditions. Instead, most companies now acknowledge that they require such a capability, but struggle with finding the right people to build it.*

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Eighty-five percent of companies said that competitive intelligence is an integral part of their strategic planning process, which is the same number from three years ago, even though the percentage of companies practicing CI has slightly increased.

While companies using CI are still more likely to deploy it for tactical and operational reasons, rather than strategic ones, this year’s survey shows some shifts. Eighty-three percent of all respondents use CI for business development and sales purposes, a 6% increase from 2005, and 79% use it for new product launches, which represents a 5% jump from three years ago. But strategic usage of CI jumped even more. Use of CI for strategic alliances, joint ventures and licensing relationships climbed 15% from 59% to 68%, and use for research and development planning and execution went from 55% to 71%, a 29% gain.

The percentage of companies engaging in war-gaming and competitor response modeling remained fairly consistent since the 2005 survey. However, the regular use of scenario planning has seen a significant jump with almost double the number of companies practicing (30% in 2005 vs. 59% in 2008). That number skyrocketed for the insurance industry to 75%. Although the total number of companies that take part in regular war-gaming dropped, companies with more than \$1 billion in revenues were still more likely to engage in the practice with more than 16% of companies in that category participating, compared to 9% of the companies with annual revenues under \$1 billion. One hundred

percent of energy companies responded that they do not use war-gaming in their regular CI practices. Competitor response modeling is used by 28% of the respondents, but the technology industry led the pack with 41% of companies answering affirmatively.

The number of respondents that said they integrate likely competitor reactions into their plans for launching new products or services increased from 40% in 2005 to 48% in 2008, representing a 20% increase. In line with the survey conducted three years ago, the percentage of respondents who do so is significantly greater with companies of revenues of less than \$1 billion (65%) than it is of companies with revenues greater than \$1 billion (45%). The insurance and consumer products industries led the pack with 63% and 62% of respondents respectively saying they integrated competitor reaction into their new product planning. The dramatic differences in this category among respondents from different industries were not as significant as in previous surveys. Insurance (72% in 2005 vs. 63% in 2008) and pharmaceutical (65% in 2005 vs. 42% in 2008) respondents rely on it much less than they did in previous years.

### **Intelligence System Effectiveness**

“Actions taken” jumped to the number one way companies are measuring the effectiveness of their competitive intelligence this year (47%), unseating “financial goals met,” which came in a close second (44%). The next most important measures were “new products or services developed” (38%), and “costs avoided” (29%). Interestingly, 10% of respondents said that they don’t know how to measure effectiveness, a number which has more than tripled since 2005 when only 3% of companies were unsure of measurement methods.

Almost two-fifths (37%) of respondents feel that CI does “not have sufficient stature” in their organizations to have a “significant impact,” which is almost unchanged from three years ago. This negative response is even higher among pharmaceutical companies at 67%. The insurance industry, however, shifts dramatically the other way – from 43% of respondents in 2005 down to less than 19% of executives responding in 2008 that their CI function has “insufficient stature.”

In addition, respondents believe the following problems hamper the success of CI in their respective companies:

- Insufficient funding – 42% (43% in 2005)
- Internal bureaucracy – 34% (41% in 2005)
- Intelligence team lacks sufficient clout – 24% (28% in 2005)
- Executives do not recognize value of intelligence – 19% (20% in 2005)

## COMMENTARY:

*We are concerned about the factors hampering the effectiveness of CI. The fact that nearly half of the companies surveyed say that they do not fund their intelligence efforts adequately, and that one out of five executives do not recognize the value of intelligence, suggests that current improvements we see in the strategic application of intelligence may be short-lived.*

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### The Intelligence “Eagles”

This year’s survey brought a diverse list of “eagles” with insurance being the most prevalent industry that survey respondents believe make good use of CI, followed by technology and consumer products. Banks are noticeably absent from this year’s top 10, compared to 2005 when financial service companies dominated the list. The meltdown of that sector over the past year may certainly account for the respondents waning respect for CI efforts there. Following is a comparison of the top companies with the most intelligence visions, the “eagles” of 2008 versus those of 2005.

#### **2008 Top Ten Companies**

1. Roche
1. IBM
3. Allstate
3. Intel
3. Mutual Of Omaha
3. Met Life
3. Proctor & Gamble
3. Toyota
3. Unilever
3. The Hartford
3. Hewlett Packard
3. Goldman Sachs
3. Willis
3. Aon

#### **2005 Top Ten Companies**

1. Bank of America
2. IBM
3. Toyota Motor Credit
3. Citigroup
3. JPMorgan Chase
3. Johnson & Johnson
3. Motorola
3. UnitedHealthcare
3. Wells Fargo
3. National City Corporation
3. Fifth Third Bank

Only 8% of respondents said that no companies make good use of CI, compared to 17% in 2005.

## Industry Findings

### Financial Services

Financial services differed from the survey norms in the following areas:

1. Significantly increased its use of organized competitive intelligence since 2005 (61% in 2005 vs. 74% in 2008).

2. Less likely to use CI for operational/tactical decisions:
  - a. Business development/sales 70% vs. 83% norm
  - b. New product launches 78% vs. 79% norm
  - c. R&D planning and execution 65% vs. 71% norm
  - d. Alliances, jvs, license relationships, etc. 48% vs. 68% norm
3. Least likely to use CI to anticipate and thwart competitor strategies (65% vs. 72% norm), lowest among industries.
4. Least likely to integrate likely competitor reactions into plans for product and service launches (30% vs. 48% norm), lowest among industries and the performance gap has tripled since 2005.
5. Less likely to engage in the following:
  - a. War-gaming 9% vs. 17% norm
  - b. Scenario Planning 52% vs. 59% norm
  - c. Competitor Response Modeling 21% vs. 28% norm
6. Less likely to feel company's intelligence professionals have sufficient skills and experience (61% vs. 66% norm).
7. In stark comparison to the 2005 O&E survey, where four of the top five "eagles" were banks, financial service companies have completely disappeared from the "eagles" list.

## **Hi-Tech**

Hi-Tech differed from the survey norms in the following areas:

1. Dropped from most likely to have organized intelligence (holding steady at 82%), this year beaten by the insurance (88%) and energy (86%) industries.
2. Less likely to make intelligence an integral part of its strategic planning process (82% vs. 85% norm).
3. Seventy-five percent of hi-tech executives whose companies don't have an organized way to deliver CI to decision-makers said that it is because of insufficient personnel resources, shattering the 42% norm. The other 25% don't know why they are without a sufficient delivery system.
4. Less likely to use CI for delivering early warning of emerging threats and opportunities (55% vs. 61% norm).
5. More likely to believe the following conditions hamper the success of its CI function:
  - a. Insufficient funding 54% vs. 42% norm

- b. Internal bureaucracy 36% vs. 34% norm
  - c. Intelligence team lacks needed skills 36% vs. 24% norm
  - d. Executives do not recognize value of intelligence 36% vs. 22% norm
6. Least likely to use CI for scenario planning (46% vs. 59% norm).
  7. Three hi-tech companies (IBM, Intel and Hewlett Packard) compared to two in 2005 (Motorola and IBM) ranked among the top 11 companies that respondents said make the best use of CI.

## **Insurance**

Insurance differed from the survey norms in the following areas:

1. Most likely to have an organized and systematic way to deliver CI to company decision-makers (88% vs. 76% norm), the highest among all industries surveyed.
2. Considerably more likely to make CI an integral part of operational or tactical decisions as well as strategic decisions:
  - a. Business development/sales 94% vs. 83% norm
  - b. New product launches 86% vs. 79% norm
  - c. R&D planning and execution 75% vs. 71% norm
3. Most likely to participate in scenario planning (75% vs. 59% norm), highest among all industries.
4. Most likely to integrate likely competition reactions into plans for launching new products and services some of the time (63% vs. 48% norm), the highest among industry groups.
5. Most likely to feel that its CI function has significant stature in the organization to have significant impact (75% vs. 59% norm), highest among industries.
6. Has the widest range and most consistent measurement tools for its CI function. Most likely to use the measure of “financial goals met” to measure the effectiveness of its CI function (56% vs. 44% norm), but also most likely to use “new products or services developed” (56% vs. 38% norm) and “cost avoidance” (44% vs. 29% norm).
7. Had the most positive change from 2005, when the industry was absent from the list, but now almost half of the top 11 are companies from the insurance industry (Allstate, Mutual of Omaha, MetLife, The Hartford) that make the best use of CI.

## **Pharmaceuticals/Medical**

Pharma/medical differed from the survey norms in the following areas:

1. Less likely to have organized intelligence (67% vs. 76% norm). In 2005, pharma/medical was ahead of the CI curve.
2. In 2005, the industry was more likely to make CI an integral part of its strategic planning process. However in 2008, it is less likely than other industries to do so (82% vs. 85% norm).
3. Went from most likely in 2005, to least likely to have a process in place for delivering early warning of emerging threats and opportunities (50% vs. 61% norm) in 2008.
4. Has the least confidence that their CI professionals have sufficient skills and experience to meet their needs (41% vs. 66% norm).
5. Least likely to feel that its CI function has sufficient stature in their organizations (25% vs. 59% norm). This is even less than in 2005 when 48% of pharma/medical respondents said they felt their CI function had sufficient stature.
6. Just one pharma/medical company (Roche) ranked among the top 10 companies that respondents said make the best use of CI. However, it ranked number one.

### **Consumer Products**

Consumer Products differed from the survey norms in the following areas:

1. Least likely to have an organized and systematic way to deliver competitive intelligence to company decision-makers (62% vs. 76% norm).
2. Most likely to use CI as an integral part of its strategic planning process (92% vs. 85% norm), the most of any industry.
3. Most likely to integrate competitor reactions into plans for launching new products or services (62% vs. 48% norm), highest among industries.
4. Across the board, the only industry more likely to participate in all of CI exercises presented:
 

a. War-gaming	23% vs. 17% norm
b. Scenario planning	59% vs. 69% norm
c. Competitor response modeling	31% vs. 28% norm
5. Is most likely to use alternative methods to measure the effectiveness of its CI function (15% vs. 5% norm).
6. Is more likely to feel that its CI professionals have sufficient skills and experience (78% vs. 66% norm).

7. In its first year on the O&E survey, two companies from the consumer products industry (Proctor & Gamble and Unilever) made it in the top 11 “eagles” list.

## **Energy**

Energy differed from the survey norms in the following areas:

1. Least likely to say CI is an integral part of the strategic planning process (71% vs. 85% norm), lowest among industries.
2. Most likely to use CI to help make strategic decisions when it comes to alliances and license relationships (85.7% vs. 68% norm), the highest among industries.
3. Most likely to use CI to anticipate and thwart competitor strategies (86% vs. 72% norm), the highest among industries.
4. Least likely to participate in war-gaming (100% of industry respondents answered negatively), lowest of any industry, and least likely to participate in competitor response modeling (14% vs. 28% norm), also lowest of any industry.
5. Only industry to mainly judge the effectiveness of CI practices based on new products and services developed (43% vs. 38% norm).
6. Most likely to feel that their CI function has sufficient stature within the organization (85% vs. 59% norm), highest among industries.