

Spotting Rivals' Vulnerabilities In The Downturn

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Let's face it. CI functions are in survival mode. There's little doubt that the very nature of your CI operations and output must change if your CI function will survive in these uncertain times. Senior executives' appetite for strategic intelligence is virtually non-existent right now. If you have been working in a strategically oriented CI department, or have been trying to reposition your CI function to a more strategic posture, you probably need to change tack, and do so quickly.

One way to do so may be to emphasize good, old-fashioned competitor intelligence. One of the most beneficial CI outcomes that can affect how your company emerges from the economic downturn may be to deliver targeted, insightful, and real-time assessments of how the recession is affecting your competitors. Virtually no company is immune from the detrimental effects of the current economic crisis, and your competitors are doubtless figuring out how to shore up revenues, maintain share, and avoid crippling losses -- just like your company.

Indeed, according to a recent article in the *Harvard Business Review*, "It's critical to understand your own strengths and weaknesses relative to those of your competitors. They will have different cost structures, financial positions, sourcing strategies, product mixes, customer focuses, and so on. To emerge from the downturn in a lead position, you must calibrate the actions you plan to take in light of the actions that your competitors will most likely take."¹

How? For starters, CI practitioners examining publicly traded rivals should consider conducting a thorough competitor financial analysis. Ratio analysis, in particular, is a relatively straightforward technique that can spot weaknesses in your competitors' financial position that could present opportunities for your firm. Look especially at the debt ratio (how leveraged is the competitor?), debt-to-equity ratio (how much debt is the firm carrying relative to its investors' paid-in capital?), and the quick ratio (which demonstrates a company's access to cash in the short-term).

Similarly, assessing a competitor's free cash flow and comparing it to its cash positions one, two and three

quarters ago can provide insights into whether the recession has caused a significant decline in the amount of cash your competitor's operations generate. If you notice a serious decline, it could be a harbinger of future measures to cut costs, assuming any access to financing is choked off.

More qualitative techniques can offer insights into competitors' weaknesses and help your company act opportunistically to exploit them. Qualitative methods are also beneficial for assessing the impact of the downturn on privately held competitors. If you haven't conducted a Strengths-Weaknesses-Opportunities-Threats (SWOT) analysis on your competitors in a while, now may be a good time. Compare today's SWOT to ones you conducted six or 12 months ago and see if the recession has affected your competitors' strategic positioning and intent. They may be unable to seize an opportunity -- providing an opening for your firm -- or conversely may be planning a bold move that could put your firm at risk.

Similarly, now may be a great time to conduct a targeted wargame. Select a handful of competitors and game their responses to a variety of future economic shocks and compare their responses to your own company's contingency plans. How, for instance, would competitors react to an unemployment rate above 10%? What if there is a failure of a major bank, delaying the resumption of a freer flow of credit? Will any competitors benefit from the economic stimulus package recently passed by Congress?

Returning to the basics of competitor analysis can be an effective way to rapidly change the focus of your CI function and align it to helping your company navigate the downturn. And, it could improve the chances of CI function survival.

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¹ "Seize Advantage in a Downturn" by David Rhodes and Daniel Stelter. *Harvard Business Review*, February 2008, p.52.