

Competitive Intelligence for Small-to-Medium Size Businesses

How to Get Started Now and Succeed Sooner

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Abstract: *The challenges facing a small-to-medium size business are unique. Achieving a solid customer base, defining a growth strategy and fending off competition are factors that compete with the day-to-day pressures of a running the business. Competitive intelligence is a critical element to improving performance. It can be done within the constraints of any business when approached correctly. This paper describes how to do it well within the means of an SMB.*

Note: The definition for an SMB size varies. For this article, I define an SMB to be a business with revenue between \$10M and \$100M. Of course, many of the same points apply even when the definition includes larger companies.



For more information on business strategy and competitive intelligence, visit my website at www.jthawes.com or my Strategically Thinking Blog at <http://blog.jthawes.com>. For competitive intelligence problem solving, visit my website at www.cicases.com or my CI Case Study Blog at <http://blog.cicases.com>.

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Most of my career has been spent in a large, multinational technology conglomerate. There are challenges a plenty in that kind of business. Because of the variety of businesses, there are many strong and diverse competitors. Cultural challenges are also common as conducting business and selling in many countries is difficult. Then there are the expectations of investors. Well-prepared analysts review the company's operations and ask pointed questions about future prospects. Within the company, there are entrenched constituencies with their own histories and subcultures. There often is a tendency to reduce profitable practices to predictable processes. Documentation, standards and overhead are prominent. All of this breeds a certain set of competitive habits and sensibilities.

Then there is another world that is quite different – this is the world of small-to-medium size businesses (SMBs).

These companies have emerged from the start-up phase and may have revenues between \$10M-\$100M. Their issues are different from the conglomerates. Typically, the product line scope is narrower. The markets served are fewer. Access to capital is sometimes difficult. While some business processes are beginning to emerge, they remain less important than the leadership's intuition. There is an ever-present sense of vulnerability to competitors. Employees

are stretched to perform multiple roles. Documentation and overhead are minimized, whenever possible.

Strategic Imperatives for SMBs

Commonly, there are five critical strategic imperatives for SMB's. Competitive intelligence, properly tailored, provides value for each imperative.

1. Get New Customers
2. Wisely Use Resources
3. Find Growth Strategies
4. Achieve Stability
5. Deliver Sustained Results

Value	Competitive Intelligence Impact
<p>How to connect to customers. This is the most important task for an SMB. Often the first set of customers is the most difficult since there is no well-known brand backing the first products. Finding a customer and closing a sale dominates management thinking.</p>	<p><i>Competitive intelligence clarifies a market need and determines how that need is presently being served. In practical terms, this means understanding how existing and potential customers perceive the currently available products and/or services. With that understanding, an SMB may refine their own offering to provide something valuable to customers.</i></p>
<p>How to focus to resources. Smart, motivated people run SMBs. They are capable of doing many things and serving many types of customers. However, unchecked, that versatility is often a trap. The temptations to do more, expand quickly, address multiple markets prematurely – spread the company too thinly – have sunk many businesses.</p>	<p><i>Competitive intelligence determines the right ways to focus and the right time to grow. For focus, determining and refining the SMB’s value proposition and all that flows from it is critical. Equally important, is illustrating the market potential of focus. CI analysis can analyze profit pools and suggest how to exploit competitor vulnerabilities that justify patient focus.</i></p>
<p>How to grow to the next stage. On the other hand, the impulse to grow is powerful and, at the right time, is appropriate. The question is not whether to grow. Rather, the key questions are when and how. Extending the core capabilities, customers and values of the SMB by choosing the right timing and strategy to build on what already is established is key.</p>	<p><i>Competitive intelligence supports growth plans through examination of adjacencies. Finding the right adjacencies to the company’s core is a fundamental principle for successful growth. This involves characterizing the existing business and comparing it thoroughly to markets, customers, products, services, etc., that are related but different. Identifying and assigning relative risks to each growth possibility is a critical CI service to SMB management.</i></p>
<p>How to protect current business. Conditions change rapidly. Competitors offer alternatives regularly to existing SMB customers. Customers, for their own reasons, constantly seek better terms and value from suppliers. Meanwhile, an SMB yearns for revenue and profit stability. Growth feels like a luxury when the current business is being attacked and retaining hard-won customers is essential.</p>	<p><i>Competitive intelligence identifies and describes competitive threats. Knowing the significance and likelihood of each threat is invaluable since it allows an SMB to defend its business across a narrower front. Concentrated defense is far more effective and, in reality, is the only practical approach for an SMB.</i></p>
<p>How to prosper the business. At the end of the day, most SMB’s are concerned with cash flow and profit. After all, without adequate cash flow, it is impossible to meet the payroll. Without profit, an SMB cannot survive for long. This concern is different from the one about growth. Many SMB’s fail when they pursue growth without profit.</p>	<p><i>Competitive intelligence benchmarks business models. Understanding how similar competitors are profitable can be instructive for an SMB. More fundamentally, competitive intelligence helps determine effective strategy. The classic determination of low cost versus differentiated is informed, in part, by an understanding of the competitive landscape.</i></p>

Critical Competitive Intelligence Priorities

I often talk with SMB owners and managers. When they ask about what I do, I explain that I help companies with competitive intelligence. “Isn’t that spying?” they ask as they usually take a defensive step back from me. “No,” I hasten to explain, “It is about understanding the competitive environment better so that you can make better decisions.” If they trust me even a little, they exhale and begin to relax. I then get a chance to answer the implied question, “What does competitive intelligence have to do with me?”

The key is to recognize that SMB’s already are doing competitive intelligence whether this is recognized or not by management. Their competitive intelligence efforts may be ad hoc, incomplete or ineffective. Nevertheless, companies make and use competitive assumptions. Could this be done better?

From this point, things move faster. It is easy to talk about the important questions that every SMB must answer. “Wouldn’t you like timely, credible information that helps you improve your results and decrease your risks?” I ask. That is easy for them to answer. “Of course,” they reply though there is some mystery about how such information can be obtained within their budget and capabilities.

“Not to worry,” I tell them. “Once you know your competitive intelligence priorities, you can allocate your time and resources accordingly. Then, for the priorities that you act on, there are specific approaches that you can tailor to your budget.”

I have their attention now. Before I suggest priorities, I set the context with some questions.

“Is your industry competitive?”

Does knowing about competitors and the environment help you decide your strategies?

Assuming you had valuable information, would you use it?”

Again, it is easy to answer “yes” to these questions. Now the issue becomes how to apply limited resources more effectively.

Hence, I have developed my Top 10 list of priorities for SMB’s. Competitive intelligence supports each one.

Priority	Competitive Intelligence Impact
<p>1. Know your customers. Miss this and you will “wander in the wilderness” for a long time. Nothing is more important.</p>	<p><i>Competitive intelligence clarifies what customers care about, how they make decisions and where to find them.</i></p>
<p>2. Establish a viable business model. One success is difficult enough. Sustained success is much more so. The business model is about enabling long-term success.</p>	<p><i>Competitive intelligence characterizes possible models, establishes way to measure success versus the competition and helps manage threats to the chosen approach.</i></p>
<p>3. Create your product and/or services. An SMB makes big bets on their offerings. If chosen wisely, they fill a valuable customer and market need. Otherwise, a good idea may languish due to its poor fit or uncertain use.</p>	<p><i>Competitive intelligence compares what is possible with what exists. A methodical analysis then points toward valuable differentiation.</i></p>
<p>4. Identify the current competitors. Customers have choices. Sometimes they chose a similar offering from another company. Other times, they have alternative ways to spend money to accomplish what they want.</p>	<p><i>Competitive intelligence explains why customers chose competitors and suggest ways to overcome their advantages.</i></p>
<p>5. Find new opportunities. A big part of new opportunities is finding new customers for the existing offerings. After that, the challenge is to find new markets for the offerings.</p>	<p><i>Competitive intelligence maps adjacencies and shows how they are being served today. Next steps for the SMB emerge as gaps are identified.</i></p>
<p>6. Test your strategies. Being right in every decision seems impossible. Given the likelihood of mistakes, it is important to recognize them as soon as possible and make a new decision.</p>	<p><i>Competitive intelligence suggests external measures of success for strategic decisions by observing customer and marketplace reactions.</i></p>
<p>7. Align the organization. When people have the same vision, understanding and goals, they work together better. Since, by definition, SMB’s are smaller than large companies are, effective alignment of every person is more critical to survival, never mind success.</p>	<p><i>Competitive intelligence describes competitive challenges succinctly, explains how employees must be involved in data collection and highlights measures of competitive success.</i></p>
<p>8. Balance your approaches. SMB’s have an overwhelming operational challenge. Their challenges force them to be tactical, internal and short term in focus. Therein a considerable danger exists. That is, the company may ignore or devalue the external environment.</p>	<p><i>Competitive intelligence counters this tendency by asserting that the external environment must be understood, explaining how the company can do so and suggesting models that can be maintained describing the competitive environment.</i></p>
<p>9. Map your industry. One day the SMB broadens its ambitions. The focus shifts from a small number of competitors to a larger set. Furthermore, other factors become important including trends, suppliers, substitute products and channel partners.</p>	<p><i>Competitive intelligence frames industry factors into a context that makes confident decisions possible.</i></p>
<p>10. Track important changes. Most people</p>	<p><i>Competitive intelligence tracks environmental</i></p>

<p>recognize that changes occur constantly. Indeed, it is the successful responses to change that distinguish successful SMB's from the unsuccessful ones. Even better, those SMB's that anticipate change and/or react fastest gain great advantages.</p>	<p><i>changes, emerging threats and competitive gaps to give management the maximum time to adapt.</i></p>
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My suggestion to SMB's is to define a list of priorities similar to this Top 10 list. Then, as their resources permit, they should address them (starting from their first priority) sequentially. SMB's need competitive intelligence. Far from being something to be feared or avoided, it is a critical component for their continued success. It is not spying. It is not something just for large companies. And it is not optional.

Practical Practices

A small-to-medium size business is different from a large corporation in many ways. An SMB views the world differently.



Aside from the obvious facts that an SMB has smaller revenues, fewer people and (sometimes) a narrower product or service scope, there are other less obvious differences in strategy issues. Here are a five common strategy differences.



1. **Strategy Responsibility:** The responsibility for strategy is often shared among a small number of senior managers rather than vested in a named

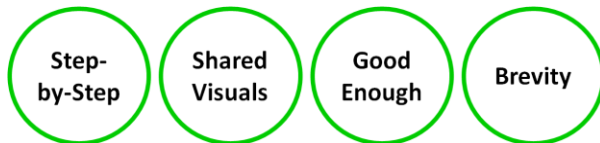
function (e.g., vice president of strategy). It is a part-time, diffuse task.

2. **Strategy Definition:** The company completes few formal strategy exercises. Emergent strategy is assigned much greater value. That is, strategy is “recognized” rather than prescribed.
3. **Decision-Making:** Decision-making speed is valued over reflection. Rapid adaptation and reaction are the currency of the day.
4. **Tactical Activities:** Day-to-day pursuit of customers, creating products, closing deals and operations consumes management’s time. In short, tactics dominate strategy.
5. **Internal Focus:** Attention to the external environment is narrowed to match the SMBs near-term customers and prospects. There is less attention paid to broad trends, unexpected competitive threats and tangent opportunities.

Given these biases, how do SMBs start productively using competitive intelligence? What is a feasible set of practices for them to initiate and sustain over time? For whatever stage of strategy and competitive intelligence

maturity they find themselves, how do they move to the next stage?

Before talking about the stages, there are four meta-principles for SMB competitive intelligence practices.



A. Use a constrained, systematic development of competitive intelligence to support strategy decisions.

Why constrained - simply because every SMB deals with resource limitations. Typically, money is tight and management attention is precious. The systematic approach identifies the important fundamentals and suggests an order for their development. Do certain things first and move to the next steps when you are ready is the key. Add to the ordered steps a sense of accountability. Accountability sets the bar for competitive intelligence to affecting important strategy decisions. Otherwise, why do it when there are so many other things to do?

B. Employ the power of a shared visual focus.

“Shared visual focus” means that it is incredibly useful to capture important thoughts in a manner

that they can be seen and shared by many people. Then, those people have the chance to challenge, improve and adopt the ideas. This is essential for an SMB since there is a high cost for inefficient strategy. Many times the strategy inefficiencies could have been avoided with simple communication approaches.

C. Avoid the perfection standard.

It is admirable to have high standards until those standards prevent you from starting something important. For instance, if you need “perfect” intelligence and nothing else will do, you are unlikely to get started when intelligence will only be “good.” An SMB might want to know everything, to never make a mistake and to eliminate all risk. These are lofty aspirations but the vast majority of competitive intelligence will fall short. It is far better to start moving with something “good enough” so that you can get to the “improving” part sooner.

D. Be succinct.

Verbosity is not a virtue for an SMB.

In fact, an SMB seldom uses “heavy” processes (when there is a choice) or exhaustive documentation. These are luxuries (burdens?) that cost too much and deliver too little value. Instead, a short, to-the-point summary of critical information is preferred. Hence, when I talk about specific competitive intelligence practices,

each can be done by hand (i.e., requires no tools or automation) and completely represented on a single sheet of paper. Ideally, a wall or whiteboard can hold all of the competitive intelligence information derived from the practices.

Five Practice Stages of Competitive Intelligence for SMBs

The use of a staged model is straightforward. If you are already doing the first one or two steps, move to the next higher step to receive more value from competitive intelligence.



Step 1: Know Yourself

Perhaps this is an odd way to start thinking about competitive intelligence. After all, is not competitive intelligence about the environment? Are we not supposed to look at our competitors? The answer is “yes” to both of those questions. However, an SMB will soon discover that much competitive intelligence is relative. That is, the way to interpret the environment depends, in part, on comparison to a fixed position. For an SMB, the fixed position is their company. To the extent that the company, its vision, capabilities, plans, products, etc., are well understood, better lessons can be drawn about the environment and competitors.

Here are five questions to answer that will help an SMP “know itself.” (Remember that the answer to each question should require no more than one page.)

unhelpful answer is to say that there are no competitors. The other negative answer is “I don’t know.” On the other hand, it is extremely positive to know how customers contemplate spending their money when they decide not to buy your products or services. The customer makes a financial choice that affects the SMB directly and knowing why can lead to changing a future customer decision.

An SMB should start with their direct competitors. A direct competitor sells a similar product or service. “Alternatives” or substitutes are a little less obvious. They are choices that can be made instead of a product or service. For instance, two airlines are direct competitors. However, video conferencing over the internet to connect friends and family may obviate the need for travel for some people.

Where are we going?	What are we offering?	Who wants what we have?	How are we different?	What are our constraints?
<ul style="list-style-type: none"> • Vision • Mission • Objectives 	<ul style="list-style-type: none"> • Products • Services • Business Model 	<ul style="list-style-type: none"> • Customers • Markets 	<ul style="list-style-type: none"> • Strategies • Value Proposition • Assets 	<ul style="list-style-type: none"> • Capital • Intellectual Property • Resources

Step 2: Identify Competitors

There are two negative answers to “who are your competitors?” One negative, usually

Create one page for each of the following.

Who are the direct competitors?	What are the competitor groupings?	What alternatives exist?	What are competitors results?
<ul style="list-style-type: none"> • Companies • Business Models 	<ul style="list-style-type: none"> • Business Focus • Size • Geographies 	<ul style="list-style-type: none"> • Products • Services 	<ul style="list-style-type: none"> • Market Share • Financials • Customer Perceptions

Review the strategy descriptions with the results

from Step 2. This exercise helps refine the SMB's value proposition and competitive positioning. It sets the stage for deciding what to do (better).

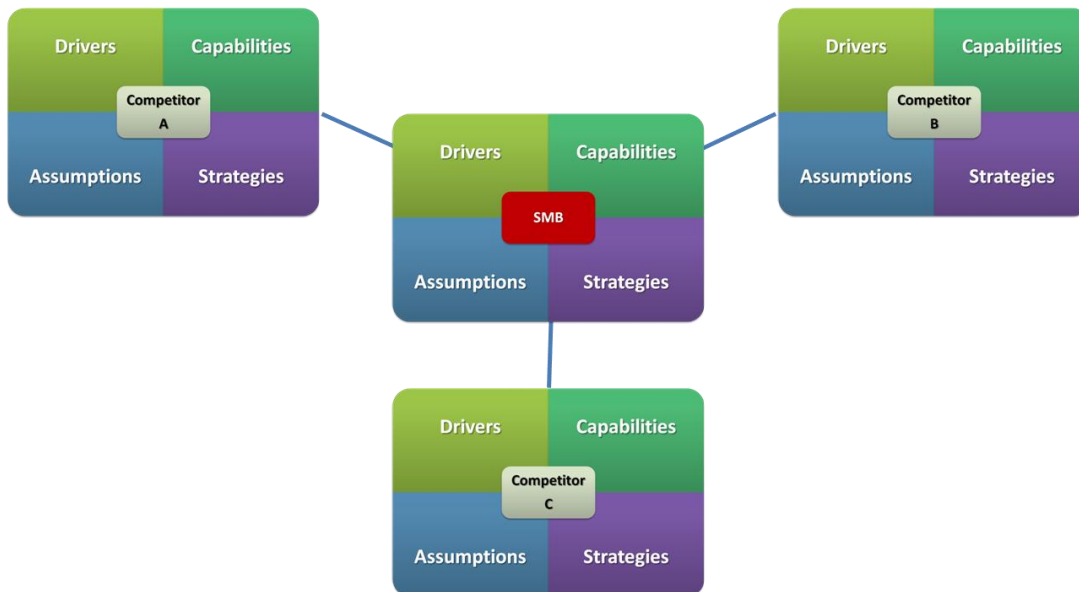
Step 3: Compare Strategies

One of the three fundamental competitive intelligence questions is “so what?” That is, having answered (at least partially) the “what is happening?” question, it is critical to move to the meaning of what is happening. Interpretation lays the groundwork for action (see the next step). One type of interpretation deals with the strategies of competitors and an in-depth comparison with the SMB's strategies. Here is what you do. Pick the most important competitors that represent the biggest threats to your success. For each competitor, complete a one-page summary of their strategy that covers four points. Do the same for your company.

- **Drivers:** What are the goals, values and needs of the company?
- **Assumptions:** What does the company assume to be true about the industry, competition and its own capabilities?
- **Capabilities:** What resources, assets and talents does the company possess to allow it to win?
- **Strategies:** How is a company actually competing to win?

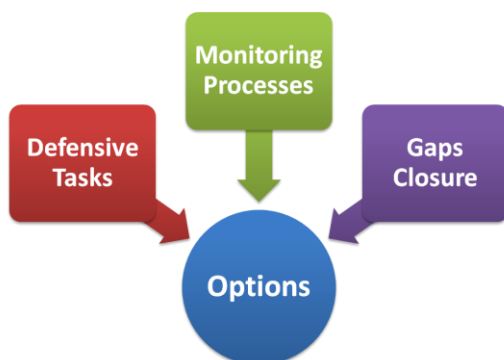
Three Critical CI Questions

1. **What:** What is happening?
2. **So What:** What does it mean?
3. **Now What:** What do we do?



Step 4: Develop Options

Understanding leads to options. Options are the basis for decisions and good competitive intelligence is a key foundation for a variety of decisions. In fact, though competitive intelligence may not be a separate function or a named assignment, it is hard to imagine an important decision being made without competitive intelligence (even if it is the ad hoc type). While there are many kinds of decisions, three types are particularly important.



- Defensive Tasks:** The comparative nature of competitive intelligence helps the SMB to understand both its competitors' value and its own value. The latter realization makes clear what assets need protection. An SMB needs to know explicitly what to protect and how to protect it. There are many protection methods and each incurs costs. Thus, an SMB needs to choose the right methods to protect what is most valuable.
- Monitoring:** Some SMBs are satisfied with a competitive intelligence snapshot. While this may be valuable, its relevancy diminishes as changes occur in the environment. It is better to think in terms of an ongoing competitive intelligence "video." A video captures

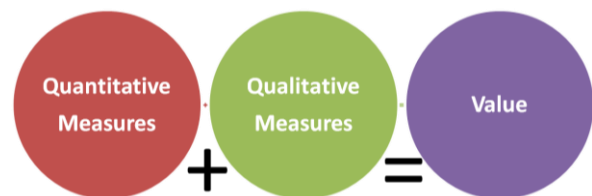
the story and the changes. Investing in monitoring need not be expensive. Simple methods exist to watch for key competitive events. An SMB needs to decide what to watch for, when to make observations and how to review it over time.

- **Gaps Closure:** Sometimes an SMB leads, sometimes it follows. “Following” implies that one or more competitors have distinct advantages. For instance, the competitive products may be cheaper, more powerful, easier to use, etc. These advantages are “gaps.” An SMB needs to know which gaps are significant barriers to its success. That knowledge is the basis for intentionally devoting resources to close the gap. Competitive intelligence provides excellent insight into identifying gaps, their significance and the priorities for their closure.

Step 5: Measure Results

There are two categories of results attributed to effective competitive intelligence. First, there are quantitative financial results. For instance, revenues, profits or market share may increase due to competitive intelligence insights. Though this is an excellent outcome, it is sometimes an elusive goal to attribute all such improvements to a specific competitive intelligence insight.

After all, even when competitive intelligence improves a strategic decision, there are many operational issues to resolve to realize the benefit of the insight. A second measure is qualitative. Has competitive intelligence improved the decision-making confidence of senior management? Did the competitive intelligence decrease important execution or resource allocation risks? How did focused competitive intelligence efforts improve the strategic alignment within the SMB? A positive answer for any of these questions is an endorsement for the value of competitive intelligence.



Conclusion

There you have it – an ordered set of competitive intelligence practices for an SMB. Doing all of them at once is a mistake when an SMB is beginning its competitive intelligence efforts. Start from a foundation and build up. Make sure that everyone in the company is aware. Evaluate the success by how competitive intelligence affects important decisions. And, whatever else you do, get started. If you do not, know that your competitors may be ahead of you because of the insights that they are gaining.
