Competitive Intelligence for the Small Firm
Where Is the Value?

by Craig Palubiak

Why Competitive Intelligence?
Why does the small firm need competitive intelligence (CI)? For the same reasons as the large firm and even more. Quite simply, we are in a dynamically changing market place. The rate of change is accelerating; industries are changing, technologies are changing, customers are changing, and competitors are changing. The only way for a business to realize its mission and goals is to keep pace with the change and be ready to respond accordingly.

This article discusses how ownership in the small firm can design competitive intelligence so that it is cost-justifiable. The issues discussed are cost justification factors, process implementation, monitoring the process, evaluating the results, and determining the cost-benefit.

The small firm is in a unique position relative to the large firm. To use an analogy, while it does not have the massive size and power of the large ocean vessel, it can respond with incredible speed and flexibility just as the small speed boat. So long as the large vessel does not drive over the speed boat, the latter can maneuver into position at a moment’s notice and take advantage of new positions and opportunities. The key will be keeping an eye simultaneously on the big ship as well as on other small boats which may be sneaking in and out of your waters.

CI enables the small business team to know what is happening in the marketplace. Who are the other players? Where are they? What are they doing? How are they responding to marketplace changes brought on by issues such as societal pressures, laws and regulations, economics, technology, and competition? Are the little competitors strategizing to sneak in and out of your niches? Are the big players preparing to roll over the little guys so they can control the market? Or are they completely moving out of the arena, leaving niches wide open, and merely maintaining the current level of activity?

Regardless of whether it is in the manufacturing or service sector, the need for the small firm to know and understand its competition is paramount to its success. Its corporate mission, goals, and strategies will be continuously affected by the actions of the competition as it strives to succeed in the dynamically changing marketplace.
**Cost Justification Factors**

How can the collection process of CI be designed in a manner that is cost-justifiable to the small firm? The primary factors to consider are the owner’s perspective and the CI collection process itself. The former is reflected in the corporate mission, goals, and strategies. The latter pertains to the process design in terms of its cost, frequency of use, designer, executor, and marketing strategy.

<table>
<thead>
<tr>
<th>Owner’s Perspective</th>
<th>CI Collection Process Design</th>
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<tbody>
<tr>
<td>Corporate Mission</td>
<td>Cost</td>
</tr>
<tr>
<td>Corporate Goals</td>
<td>Frequency of use</td>
</tr>
<tr>
<td>Corporate Strategies</td>
<td>Designer</td>
</tr>
<tr>
<td></td>
<td>Executer</td>
</tr>
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</table>

**Table 1: CI Cost Justification Factors**

**Owner’s Perspective**

The first step in cost justification of CI is to recognize that ownership in the small firm is normally involved with establishing the corporate mission, goals, and strategies. Second, consider that these are frequently a direct reflection of ownership’s personal attitudes and desires. Consequently, the CI process should be designed around the scope of these issues as seen in the following example.

The owner of a small computer software firm advocates the following corporate mission:

*We are committed in our local marketplace to the design and installation of the most efficient and economical accounting software systems available.*

Since the owner is committed to targeting the local market place and providing economical quality products, the CI collection process should be designed accordingly. The first step is to limit the CI to the local geographic area. Second, it should be directed toward specific competitor types, unless the list is such that minimal cost is incurred by including them all. Otherwise, the list might be limited to those that provide similar economical quality products or the illusion they do; those that may enter the market in the future; and/or those that market the same clients by offering appealing alternatives such as lower price and quicker delivery.

In addition to the corporate mission, the owner has established the following corporate goals for the upcoming year.

<p>| | |</p>
<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$2,500,000</td>
</tr>
<tr>
<td>Profitability (10% pretax)</td>
<td>$250,000</td>
</tr>
<tr>
<td>Market Share</td>
<td>25%</td>
</tr>
</tbody>
</table>

Since the market share goal is 25% when revenues reach $2,500,000, one can ascertain that total market potential is relatively small at $10 million. Is it likely that this will grow or decrease in the future? What does the owner expect? What does competition predict? The answer to these questions will influence how much effort should go into CI. For instance, a small market will probably not attract large competitors unless they expect it to grow or they perceive a strategic benefit. So if the big guys are not a serious threat, the required CI effort may be minimal, unless the other players begin to fight for market share and/or the total market is expected to expand greatly.

In conjunction with the owner’s stated goals, there is usually an associated strategy to reach the goals. Whether the strategy is to grow, maintain, harvest, or divest the firm, the benefit of collecting CI will vary depending on the answer to the following questions:

**Grow**

Will growth be internal or external? How will competition respond? Is a particular competitor a potential partner? If funds are required will they be generated internally or will an outside investor be sought? How does the firm demonstrate competitive advantage to a potential investor?

**Maintain**

What is to be maintained: profits, revenues, or market share? For how long? How long will the opportunity exist? How will competition respond? Will the firm be able to financially sustain maintenance or will outside funding be required? If so, how can competitive positioning be demonstrated to a potential investor?

**Harvest**

At what level: corporate-wide or within specified boundaries? What are the anticipated benefits from harvesting? Will competitive pressures change and what will be the effect?
Divest
Now or later? How can shareholder value be maximized? And what is the method of divestiture? If liquidating, will the competition bid on the firm’s equipment, inventory, receivable and/or client list? If selling to family members, what is the current market value relative to competition? Why might an outsider benefit from acquiring the firm, whether it be a supplier, client, or even a competitor?

Once the strategy is identified and the appropriate questions answered one needs to classify the competition density. Is it concentrated (few competitors) or is it fragmented (many competitors)? On the basis of the previous discussion, it is apparent that the strategy to grow or divest will demand a high level of CI regardless of the competition density because their potential impact in the short-term is substantial. On the other hand, the strategy to maintain or harvest will require less CI effort in the short term because competition is less likely to have a major impact. Table 2 highlights in matrix form the various levels of CI needed as low-medium-high.

<table>
<thead>
<tr>
<th>Competition Density</th>
<th>Strategy</th>
<th>Grow</th>
<th>Maintain</th>
<th>Harvest</th>
<th>Divest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concentrated (few)</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Fragmented (many)</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
<td></td>
</tr>
</tbody>
</table>

Table 2: CI Strategy

CI Collection Process Design
The small business owner may recognize the benefits of CI, but find it difficult to cost-justify a comprehensive study. The key is to identify the cost-benefit at the various stages of the process and how they can be paced at the owner’s discretion. As an added cost-benefit safeguard the actual process should be designed in a modular format so that the owner can turn the process on and off as desired, whether it is a cash flow issue or some other consideration. Typical modules for the small firm include those listed in Table 3. Each component in the format should be viewed relative to the following: cost, priority, frequency, designer, executor, and marketing strategy (Table 4).

<table>
<thead>
<tr>
<th>Employee survey</th>
<th>Customer survey</th>
<th>Prospect survey</th>
<th>Industry sources</th>
<th>Government sources</th>
</tr>
</thead>
</table>

Table 3: CI Modular Components

Case 1: Marketing Benefits
In the computer software example, the firm enjoyed numerous marketing benefits. It realized a public relations benefit by soliciting employee, client, and prospect feedback. The employees were grateful to be recognized as a valuable resource for the team. Clients gained satisfaction from knowing that the firm attempted to learn new and better ways to serve their needs. And prospects credited the approach as an effort to better serve the marketplace.

The potential sales benefit was twofold. First, the CI collection process was designed in such a manner that it alerted clients and prospects to the differences and benefits of dealing with the firm versus the competition. Second, the CI information assisted the firm in learning about new products and services which were of interest to the marketplace.

In other cases, the CI information may be beneficial in a firm’s advertising campaign. The information can be used to highlight how the firm and/or its products differ from the competition. This can be accomplished by indirect or direct comparison.

Process Implementation
How is the CI collection process best implemented? Recognizing that the process is directly related to the modular format, that was previously discussed, there are two critical factors: the timing of implementation and the method of execution.

Timing is at the owner’s discretion. While an initial time line should be established, the individual components can be implemented as cash flow permits and when the potential cost-benefit is perceived favorable.

The method of execution directly impacts the effectiveness and efficiency of the CI collection process as well as potential marketing opportunities. Consequently, each component needs to be individually evaluated to determine its best method of implementation. The first issue of consideration is the component’s information sources and their related geographic dispersion, location density, and availability (for example, component sources for employee surveys are the employees, while industry sources might include trade journals and associations):

**Geographic Dispersion**
How widely dispersed are the information sources? Are the sources primarily located within the metropolitan area, state, or country, or are they internationally dispersed? How assessable are they, by what method, and at what cost?

**Location Density**
How densely populated are the source categories in each of the various areas of the geographic dispersion? Should certain source categories be targeted within limited areas while others are targeted throughout the entire area?

**Availability**
How available are the source categories? Does their availability vary by time of day, month, or year, by job function, or by some other factor? What impact will availability have on effectiveness and efficiency?

The second issue of consideration for the method of execution is the delivery system. Quite simply, what intelligence acquisition method will deliver the optimal results for the component information source: personal interviews, telephone interviews, direct mail, in person, computer, etc?

- Personal interviews are typically the most expensive delivery system, yet extremely effective for feedback. They are cost-effective for those components that have tight density and/or when needed feedback can best be acquired on a conversational basis.
- Telephone interviews are moderately expensive compared to personal interviews. They prove cost-beneficial when a larger number of sources need to be contacted and/or they are located over a dispersed area.
- Direct postal mail is the least expensive of the traditional data collection methods. However, the response levels are usually the lowest so the per unit cost may actually be the highest. Regardless, this method is easily designed as both an information source and marketing piece.
- Online surveys (Survey Monkey, etc.) and email campaigns can be very detailed in their targets and easily modified. Geographic location is not a factor for cost.

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**Table 4: CI Modular Format Example**

<table>
<thead>
<tr>
<th>Component</th>
<th>Cost</th>
<th>Priority</th>
<th>Frequency</th>
<th>Designer</th>
<th>Executor</th>
<th>Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee survey</td>
<td>$$</td>
<td>1</td>
<td>Annually</td>
<td>External</td>
<td>External</td>
<td>PR</td>
</tr>
<tr>
<td>Customer survey</td>
<td>$$$</td>
<td>2</td>
<td>Annually</td>
<td>Internal</td>
<td>External</td>
<td>PR, sales</td>
</tr>
<tr>
<td>Prospect survey</td>
<td>$$</td>
<td>5</td>
<td>Biannually</td>
<td>Internal</td>
<td>External</td>
<td>Sales, advertising</td>
</tr>
<tr>
<td>Industry sources</td>
<td>$$$</td>
<td>3</td>
<td>Annually</td>
<td>Internal</td>
<td>Internal</td>
<td></td>
</tr>
<tr>
<td>Government sources</td>
<td>$$</td>
<td>4</td>
<td>Biannually</td>
<td>Internal</td>
<td>Internal</td>
<td></td>
</tr>
</tbody>
</table>

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**Competitive Intelligence for the Small Firm: Where Is the Value?**
In the computer software example, the firm designed a simple yet attractive mail which highlighted that the survey was being undertaken so that customer’s needs might be better served. The mail included a substantial discount coupon for any client or prospect that cared to purchase a new product offering on a 30-day trial basis. The response level was well above average and the public relations benefit was strong.

- Associations and trade shows can be visited in person. These provide an opportunity to observe and question what is occurring within the industry.

- The internet is increasingly becoming a dominate source of information that is readily accessible.

In summary, whether CI collection is via the internet, postal mail, telephone, or in person, the approach should be packaged in such a manner that it maximizes the firm’s image. Table 5 provides an example of how one company viewed its CI process execution considerations.

<table>
<thead>
<tr>
<th>Component</th>
<th>Source</th>
<th>Dispersion</th>
<th>Density</th>
<th>Availability</th>
<th>Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee survey</td>
<td>Employees</td>
<td>Regional</td>
<td>3 states</td>
<td>High</td>
<td>In person</td>
</tr>
<tr>
<td>Customer survey</td>
<td>Customers</td>
<td>National</td>
<td>25 states</td>
<td>Medium</td>
<td>Email, phone</td>
</tr>
<tr>
<td>Prospect survey</td>
<td>Prospects</td>
<td>National</td>
<td>40 states</td>
<td>Low</td>
<td>Email, phone</td>
</tr>
<tr>
<td>Industry sources</td>
<td>Associations</td>
<td>Local</td>
<td>Metro</td>
<td>High</td>
<td>In person</td>
</tr>
<tr>
<td>Government sources</td>
<td>Publications</td>
<td>Local</td>
<td>Metro</td>
<td>High</td>
<td>Computer</td>
</tr>
</tbody>
</table>

**Table 5: CI Execution Considerations**

**Monitoring the Process**

How important is it to monitor the CI collection process? While monitoring the process is the least complicated step, a rigid time line should be established for each component to assure that execution proceeds accordingly. Furthermore, unexpected situations and potential problems should be dealt with in a manner that does not hinder the process.

For example, one company found that during its first round of employee interviews the questionnaire was not comprehensive enough. Consequently, the survey was immediately modified by adding a few critical questions. The resulting feedback suggested that several new products were being requested by clients and that the company was in a position to beat the competition to the marketplace if it so desired.

In another company, the number of direct mail responses was extremely low even though the clients had been notified ahead of time that the survey was en route. The company quickly initiated a telephone campaign that resulted in a favorable response level. While monitoring should be a simple process, lack of attention can destroy the best laid CI plans. Therefore, it is imperative that the appropriate parties be assigned responsibility and accountability for monitoring the various aspects of the implementation.

**Evaluating the Results**

How are the CI results to be evaluated? The small business owner should evaluate CI results for process accuracy, sufficient response levels, and actual feedback. Process accuracy should have been maintained during the monitoring phase of implementation. However, a thorough post review should be completed to verify if the results may have been hampered due to a flawed system, or how the system might even flow better in the future, if and when the particular components are implemented again.

Benchmarks should have been established earlier as to the desired response levels for each component. If the variance is too great a problem may exist. If the response is low it might indicate that the component implementation process was poorly executed, that the response sources were antagonistic toward the firm, or that they were apathetic toward the process or its content. Evaluating actual feedback is obviously a focal point of the CI collection process. The small business
owner must be careful not to react too hastily as the results are reviewed. The key is to maintain a rational and non-emotional perspective as an effort is made to quantify exactly what the results are indicating. The first step is to confirm if there is consistent feedback within and between the various components’ sources. In other words, if the employees in the southeast region believe that competitor A is pricing aggressively, but employees in the other three regions do not agree, other components’ sources should be studied. For example, it might be found that the customer and prospect sources agree with the southeast region employees, and in fact have been approached region-wide with aggressive proposals by both competitors A and B. Unbeknown to the company, this could be the first signal that the industry is preparing for a market share battle.

The second step is to determine if further CI is necessary on a partial or comprehensive basis. In the previous example, if pricing is a critical issue it may prove necessary to probe even further. This may be accomplished by returning to the original respondents in a particular component category or soliciting new respondent information. In either case the degree of execution is at the owner’s discretion.

The third step is to determine what action plan, if any, should be undertaken as a result of the evaluated results. This includes doing nothing, a partial response, or developing a comprehensive plan.

**Determining the Cost-Benefit**

The underlying issue when determining the value of CI within the small firm is whether or not the business owner can quantify the cost-benefit; if negative, the owner should understand why. Was it due to poor process accuracy or insufficient response levels? Could it prove valuable in the future if modified? If the value was positive, to what extent? How can it prove even more valuable in the future?

The owner should recognize that the different components of the CI process will provide varying degrees of information over time. While one component may be limited in scope today, it may prove valuable in the future and vice versa. This can be greatly attributed to that dynamically changing marketplace cited earlier in which industry, technology, customers, and competitors continue to change at an accelerating rate.

For if a business is to realize its mission and goals it must keep pace with the change and be ready to respond accordingly.

If a business does not keep pace with the change, the boat analogy may come true: the large ocean vessel may drive over your boat and crush it, or other small boats may sneak into your waters and steal your market away.

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