



Global Intelligence Alliance

MEASURING THE BENEFITS OF COMPETITIVE INTELLIGENCE

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Executive Summary

Users of information usually expect tangible benefits from using CI products or services. They want CI output that supports their personal objectives. Therefore, CI products and services should focus on real and identified business objectives – such as getting more customers, developing better products and introducing new products to the markets in a timely manner. It is difficult to suggest universal methods or models of measuring CI productivity, as every organization has different goals, objectives and requirements for CI measurement. However, some general principles that can help organizations establish their own measurement practices for CI can be suggested.

Measurement of CI benefits is an important means of getting senior management support for the CI function. However, the impacts of intelligence operations are indirect, just like in advertising, when the decision-maker does not know which part of the budget was actually

responsible for the profit. Similarly, there is usually no direct causal relationship between revenues and the money spent on a particular piece of intelligence. Therefore, it may be difficult to justify intelligence expenditures to top management.

That said, a number of studies do confirm a statistical link between CI activities and corporate performance. Instead of measuring the direct quantitative business benefits of a decision made based on a particular piece of intelligence, other methods of measurement may be considered as well. CI activity could be seen as an internal service with clear and defined product offerings that consists of required products such as competitor or customer profiles, industry monitors and strategic outlooks. This means that like any other service, CI service can be measured on the basis of demand from internal customers, i.e. the decision-makers, and quality brought to them.

1. Introduction

This paper examines the challenging task of measuring the benefits of Competitive Intelligence products and services. The paper doesn't seek to find universal methods or models of measuring CI productivity, as every organization has different goals, objectives and requirements for CI measurement. The aim is to shed further light on the subject and provide general principles that can help organizations establish their own measurement practices for CI.

Users of information usually expect tangible benefits from using CI products or services. They want CI output that supports their personal objectives. Therefore, CI products and services should focus on real and identified business objectives – such as getting more customers, developing better products and introducing new products to the markets in a timely manner.

According to Herring (1999, 5), users of information usually expect tangible benefits from using CI products or services. They want CI output that supports their personal objectives. Therefore, CI products and services should focus on real and identified business objectives – such as getting more customers, developing better products and introducing new products to the markets in a timely manner.

In terms of measurement this is a challenging task. Instead of measuring the direct quantitative business benefits of a decision made based on a particular piece of intelligence, other methods may be considered as well. CI activity could be seen as an internal service with clear and defined product offerings that consists of required products such as competitor or customer profiles, industry monitors and strategic outlooks. This means that like any other service, CI service can be measured on the basis of demand from internal customers, i.e. the decision-makers, and quality brought to them.

2. Why measure CI benefits?

Measurement of CI benefits is an important means of getting senior management support for CI function. In the case of insufficient top-level commitment, the strongest incentive for senior management to implement intelligence systems is seeing other

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companies doing it and achieving cost savings (Stanat 1990, 199). One of the most effective means of demonstrating potential cost savings seems to be exploring someone else's success in doing that first. Consequently, benchmarking CI activity of other companies may become an important means of internal CI marketing. Kahaner

(1996, 186-187) also stresses the importance of demonstrating the value-added as one of the most effective approaches for assuring top management commitment.

In addition to top-level commitment, the development of a measurement process is critical to the existence of every CI unit. If the objective of the unit is growth or gaining a significant position in organizational decision-making, there have to be ways to justify the unit's existence and related benefits. An effective measurement process can be seen as a tool for this.

A measurement process can also function as an important link between CI personnel, managers and other information customers. The defined objectives and expectations actually function as standards for evaluation of the CI personnel and the CI unit (Simon 1998).

3. Is There Evidence of Links Between CI Activities and Corporate Performance?

One of the main reasons why top management may not be committed to intelligence activity is that it is difficult to prove the bottom-line benefits of such an abstract process. Kahaner (1996, 229-232) argues that the impacts of intelligence operations are indirect, just like in advertising, when the decision-maker does not know which part of the budget was actually responsible for the profit. Similarly, there is usually no direct causal relationship between revenues and the money spent on a particular piece of intelligence. Therefore, it may be difficult to justify intelligence expenditures to top management. One way of looking at the gains is to evaluate how much money the company has lost by not having effective intelligence. Even so, it is difficult to prove that a lost deal or a late product launch was in fact due to inaccurate information about the competitors' actions or customer preferences.

In some situations, the benefits from CI activities are explicit. More typically however, it is extremely difficult to trace the specific pieces of intelligence that brought the benefit. Often the benefits can only be identified several years after the actual decision, which makes it difficult to relate the benefit to a certain decision or piece of information (Nelke 1998, 15). Nelke has tried to measure the monetary benefits obtained from information usage. According to her findings, it is nearly impossible. However, she has identified some situations where the improved knowledge of the external environment could tangibly benefit the organization:

- Product launch to new markets
- Development of new products
- Selling consulting services
- Order approval
- New patents

The issue of CI benefits is also discussed by Gilad (1995) who emphasises that like any business initiative, setting up an intelligence process should contribute to the bottom line. He further argues that studies indeed confirm a

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statistical link between CI activities and corporate performance. As a matter of fact, the author implies that the link may be even stronger than the studies suggest.

A study prepared for the *Society of Competitive Intelligence Professionals* (SCIP) indicates that companies practicing high levels of intelligence are able to increase their business performance more than their "less intelligent" competitors. The following quantitative findings suggest that a high level of CI contributes to good company performance (Jaworski & Wee 1993, ref. McGonagle & Vella 1996, 187):

- High level of intelligence practiced → 37 percent higher level of **product quality** and 68 percent increase in business performance.
- High level of intelligence practiced → 36 percent higher level of **strategic planning quality** and 48 percent increase in business performance.
- High level of intelligence practiced → 50 percent higher level of **market knowledge** and 36 percent increase in business performance.

The study indeed demonstrates that intelligence can make a substantial contribution to corporate performance. It is especially interesting to note that a high level of intelligence seems to contribute to higher product quality. Thus, research and development activity can be viewed as a key customer of CI activity. Typically however, CI seems to be a relatively distant issue for the R&D function.

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Price Waterhouse has also found comprehensive evidence of the benefits of intelligence in a study that covered 24 divisions of several aerospace and defence companies. The two-year benchmarking study revealed that, in addition to other variables, successful intelligence contributed tremendously to winning the contracts. In fact, intelligence played a crucial role in explaining why some companies won 67 percent of the contracts compared to an industry average of 18 percent. The winning companies focused especially on competitor and customer intelligence (Kahaner 1996, 232-233).

4. What to measure?

One of the means of measuring the entire CI process can be standardization of the CI output, i.e. the products and related production process. If the organization has a clearly defined CI product portfolio, it is possible to measure the use or demand of a specific product. The use of a particular product can thus function as a measure of the related intelligence need.

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If the use is extremely intensive, the product is successful and its existence justified. However, any conclusions have to be treated with caution, as the nature of each product is different and can be an explanation to its relatively wide use. Therefore, user volume alone cannot be used to justify the existence of a certain CI product. According to Simon (1998), the direct monetary benefits of a CI program are hard to measure. He notes that the objective of a CI program is

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to analyze information and produce intelligence. The actual decisions based on this intelligence are made elsewhere and the intelligence obtained from a CI unit or department is only a part of the information used in decision-making. As a result, there should be ways to measure how much the intelligence obtained from CI activities actually affects decision-making. If it can be clearly shown that a certain decision was made purely based on the conclusions derived from a particular intelligence product, the measurement would be easier. Standardization of CI output and the production process can thus be a tool for achieving this.

According to Prescott & Bhardwaj (ref. Herring 1999, 15) CI practitioners believe CI programs provide the following benefits:

- Influencing actions of decision-makers
- Improved early warning signals
- Identifying new opportunities
- Exploiting competitor vulnerabilities
- Sharing of ideas
- Better serving the company's customers

Prescott & Bhardwaj argue that these benefits are directly identifiable, although there are no quantitative measures to support this. An improved market position and improved revenue/profits are not directly identifiable since they are "uncertain effects". These benefits fall into the category of bottom-line measures, which are usually the most commonly requested.

Simon & Blixt (ref. Herring 1999, 15) have tried to measure these uncertain effects. They describe the relevant issues to be measured when considering uncertain effects or monetary

benefits of a CI program as:

- Quality, relevance, timeliness, and accuracy of intelligence
- Accuracy of data in analysis
- Increasing number of clients and additional business from current clients
- Business success and performance measured by industry benchmarking.

Interestingly, this set includes both measures of the CI process and its products and measures of actual business success (Herring 1999, 15).

Simon (1998) divides CI measures into "hard" and "soft" measures. Hard measures imply a standardized measurement of the organization's processes. The main interest then is the measurement of the final outcome: costs, time and quality. Soft measures, on the other hand, are more subjective in nature, which sets their reliability in question. Examples of soft measures are working habits, work atmosphere, feelings, attitudes and organizational development. Table 1 further outlines these soft and hard measures.

Table 1. The soft and hard measures of CI success

HARD MEASURES	SOFT MEASURES
<p><i>Costs -- CI contribution to the bottom line:</i></p> <ul style="list-style-type: none"> • Costs of doing the research • Cost benefit of CI research (saving on organizational resources) <ul style="list-style-type: none"> • Financial gains generated from the impact of ideas and suggestions introduced by CI practitioners 	<p><i>Customer usability:</i></p> <ul style="list-style-type: none"> • Work habits • User friendly reports • Participation on teams • Contributions to teams • Communication skills • Contact follow-ups • Customer satisfaction ratings • Understanding
<p><i>Quantitative measures (output) -- measurable number of units of work produced:</i></p> <ul style="list-style-type: none"> • Clients serviced • Projects completed • Suggestions submitted • Suggestions implemented • Projects assisted • Number of BI/CI staff • Staff productivity • Participants in the CI process (direct and indirect) 	<p><i>Acceptance and alliance measures:</i></p> <ul style="list-style-type: none"> • Work climate • Number of requests for service • Number of repeated requests for service • Requests for participation in team meetings • Referrals from customers • Further integration of CI into projects
<p><i>CI practitioner performance measures:</i></p> <ul style="list-style-type: none"> • Effective use of resources (resourceful and creative) • Knowledge of CI methods <ul style="list-style-type: none"> • Personal competencies including but not limited to computer skills, thinking ability, and communication ability (oral and written) • Resourcefulness 	<p><i>Unit and personnel effectiveness measures:</i></p> <ul style="list-style-type: none"> • Feeling/Attitude • Solicitation for services (selling of services) • Attitude changes – clients taking you in to confidence or consulting with you • Customer loyalty rating • Perception of CI contributions • Relationship building (sharing of personal information) • Problem solver perception
<p><i>Quality measures:</i></p> <ul style="list-style-type: none"> • Intelligence product measures • Accuracy of information (validity and reliability) • Immediate usability of results (no need for rework) 	<p><i>Personnel development/advancement:</i></p> <ul style="list-style-type: none"> • Rewards • Job effectiveness • Attendance at CI orientation and training programs (participant or teaching) • Promotion • Pay increases • Work accomplishment acknowledgements
<p><i>Time measures:</i></p> <ul style="list-style-type: none"> • Ability to produce timely information <ul style="list-style-type: none"> • Efficiency (time for research and time of response) • Time saved by CI interventions • On-time delivery 	<p><i>CI Practitioner performance measures:</i></p> <ul style="list-style-type: none"> • Initiative • Implementation of new ideas • Degree of supervision required • Ability to set goals and objectives

Source: Simon 1998

5. Conclusion

Measuring CI success is an extremely challenging task due to the abstract nature of the CI process. However, the importance of the formal measurement program is clearly recognized and there have to be ways to justify the existence of CI activity. The benefits of CI activity can be identified and listed, but quantification of these benefits seems rather difficult. This article suggests that the standardization of CI output and production processes may provide a solution to the measurement problem.

CI output standardization and the formulation of a product portfolio makes it possible to measure the demand for certain intelligence products in volume terms. New technology allows automatic user monitoring for CI products which are disseminated via intranet or intelligence portals within the intranet. However, the demand for products disseminated via other media must also be identified. In addition to volume measurement, the demand should be measured in terms of quality as well. In practice, this means measuring customer satisfaction. Having clearly defined CI products with responsible owners makes it easier to collect user feedback from the customers.

Although CI has to bring value to the organization, measuring CI activity does not have to be directly linked to business performance indicators given that the relationship between the bottom-line

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and a particular piece of intelligence is extremely difficult to identify. Instead, treating CI as a service function with a clearly defined product offering and related production processes can serve as an easier approach to measuring the CI demand both in quantitative and qualitative terms. In addition, by standardizing the CI output, other measurement variables, such as time spent on processing information, are significantly easier to use.

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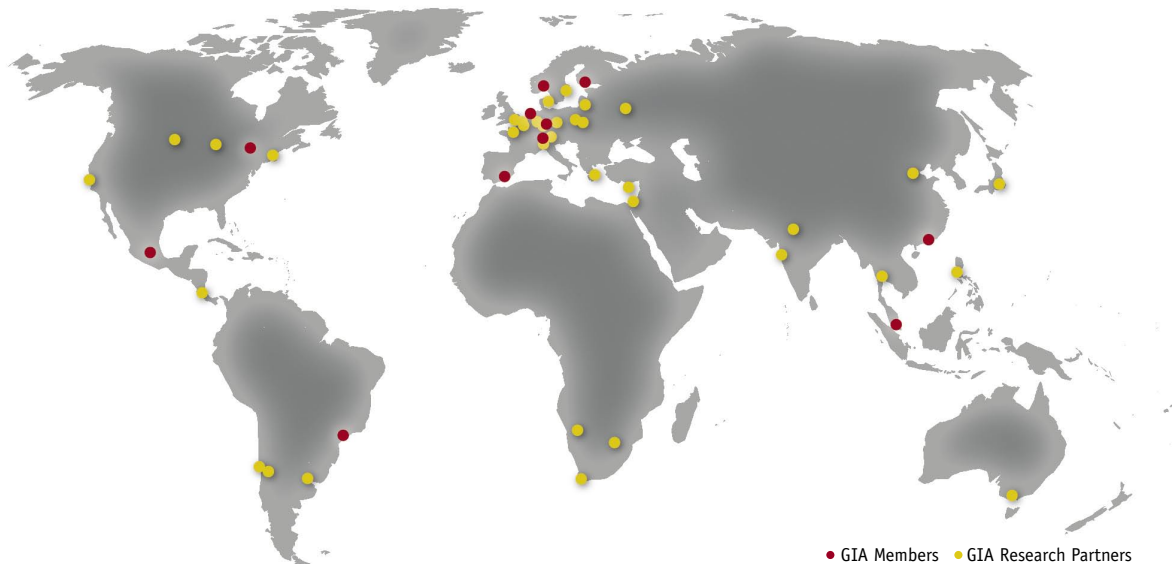
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