To Need or Not to Need Intelligence

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Strategists make two mistakes regarding intelligence.

One: I need the intelligence.

Two: I don't need the intelligence.

In the former, the strategist believes something such as "the answer is in the numbers," or "better data let us make better decisions," or "numbers = science = right."

In the latter, the strategist believes something such as "I know the answer," or "the answer is obvious," or "numbers don't tell us what we need to know."

Both perspectives contain truth.

"I Need Intelligence"

Let's begin with the "I need the intelligence" perspective.

Here are some examples of competitive or market intelligence:

- Your fiercest competitor has cut prices 10%.
- Forecasters say the market will grow 3.2%, up from their previous estimate of 3.1%.
- Your customer satisfaction has reached an all-time high.
- A new competitor announced today that it's entering the market.

Great intelligence. It's exciting, and / or precise, and / or encouraging, and / or alarming. The possible problem is in a question that may or may not get asked: **so what?** So what if your competitor has cut its prices? So what if the market is going to grow 0.1% faster than expected? So what if your customer satisfaction hits a record? So what if a new competitor is coming in?

Those tidbits of intelligence certainly seem valuable. After all, who wouldn't want to know that a competitor is cutting price or that customer satisfaction is higher than ever?

The point is, the facts are simply facts. They have no intrinsic meaning. (If they had intrinsic meaning, the significance of one competitor's 10% price cut would be the same for you, for your other competitors, and for your neighborhood dry cleaner.) The rest — the so what — is interpretation.

Here are a few ways you could interpret a competitor's 10% price cut:

- They are attacking us.
- They are attacking our competitors.
- They think we are vulnerable.
- They think our competitors are vulnerable.
- They've got to make their quarterly numbers.
- They've got a new compensation program that values market share.
- They've got inventory that they want to clear out.
- They are making a mistake.
- They made a deal to get better distribution.
- I thought they were going to cut 15%, so 10% is no big deal.
- I thought they were going to cut 5%, so 10% is a big deal.
- I thought they weren't going to cut at all, how did we get surprised?
- They know something we don't know.
- We know something they don't know.

The *intelligence* doesn't drive your response (if you choose to respond). You don't do something because the number 10% is special. What drives your response (if you respond) is your

interpretation of the intelligence. The issue with the "I need the intelligence" perspective comes when it's accompanied by "the numbers speak for themselves." Just because we hear numbers doesn't mean they're speaking.

We might think that analyzing the numbers gives them voice. However, plotting (for instance) that 10% price cut on a chart of your competitor's prices and calculating an exquisitely precise trend line simply creates new non-speaking numbers. The trend line is more than a calculation. It is an interpretation.*

The reason you need the intelligence is because it tells you something that has happened. Without the intelligence, you wouldn't know it has happened. The *value* of the intelligence is in the discussion you (can) have about how to interpret the intelligence.

- Why did the competitor cut its price 10%? Do we have other intelligence that corroborates the reason we think they did it? Will that reason make sense in the future?
- What does the "why" tell us about what they are likely to do in the future? What does it tell us about how they are likely to react to different responses (including no response at all) that we could make?
- What does their price cut tell us about how they see their business model? Should we emulate their business model? Should we create a business model that goes in the opposite direction (focus on the premium end of the market)?

That discussion could prevent you from, say, starting a price war. If the competitor was clearing out inventory, they might not intend to keep prices low. Conversely, it could prevent you from losing market share. If the competitor was getting aggressive, a prompt tit-for-tat slap might help them re-enter reality.

Further analysis can indeed be valuable. For instance, if you have a market-response model, then plugging in the competitor's 10% price cut may (if it's a good model; many aren't) tell you

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* The trend line is an interpretation because it assumes the progression of their prices over time is due to time, and (therefore) that their future price cuts can be predicted by knowing their past price cuts.

about the impact on your sales and profitability. Be careful, though, because that analysis isn't the end of the story. Note that the question about the intention and duration of the price cut is still relevant, and is not answered by the market-response model. Note also that it's a dynamic situation: will your competitors respond to the cut, what will the price-cutter do if you or they cut price, what will anyone do if you take a non-price action, and so on.

"I Don't Need Intelligence"

Now let's take a look at the "I don't need the intelligence" perspective.

We will start by not using the analogy of the blind people describing the elephant. Although it makes a good point and it's reassuringly familiar, it's time to move on; and besides, the elephant is getting annoyed.

Show of hands: how many readers believe that no computer is as sophisticated as a human being?

If you respond as do most people who attend your witty author's presentations, you hesitantly indicated yes. Yes, because you believe the statement; hesitantly, because you suspect your devious author is setting you up.

"So," continues the story, "if you believe that no computer is as sophisticated as a human being, then what's the answer to this very simple equation?"

$$(163{,}948 \times 992{,}580) \div (4{,}822 \times 33{,}086 \times 1{,}020) = ?$$

Of course, the computer's ability to solve that equation doesn't necessarily indicate the presence of sophistication (nor does it necessarily indicate its absence).† Similarly, there are things

† Incidentally, upon seeing the aforementioned equation some people quickly "eyeball" or guesstimate the answer, and some are right. If you are one of those people, you might get the point of the exercise by changing, say, the 33,086 to 33,087 and trying again to come up with the answer.

humans do that computers don't, such as writing strategy articles. (Does that activity indicate the presence or absence of sophistication?)

The point is that humans and computers do different things. Those things can be in partnership. Your lazy author doesn't want to write this article using pen and paper. You probably wouldn't voluntarily hire an accountant who says he or she distrusts those newfangled computers and who consumes several pencils and many erasers in the process of preparing each tax return.

A strategist (or someone in any profession) may shun quantitative analysis in making the fullest use of the available intelligence because he or she believes the answer is obvious. In counterpoint, your contentious author refers you to the equation above. It is simply not that easy to gauge or juggle multiple numbers in our heads.

An illustration of the principle that humans find it difficult to calculate in our heads is to grasp the difference between a million and a billion. The difference is a factor of one thousand. What's the size of one one-thousandth? Take a piece of paper. Imagine that the long edge is one. Put a mark on the paper halfway along that edge. Now you've got one half. Put a mark between the end of the page and the mark you made before. Now you're got one quarter. Put a mark between the end of the page and the latest mark. Now you've got one eighth. Do that seven more times, and the space between the end of the page and the last mark you made is roughly one one-thousandth. (It's actually 1/1024. Close enough.)

An illustration of the principle that humans engage in wishful thinking about numbers is the persistent belief that one can make money in a casino without owning the casino.

An illustration of the principle that humans' minds are less rigorous than we think is that many people, upon being asked, will remember meeting Bugs Bunny at Disney World. They didn't. Bugs Bunny is a Warner Brothers character. If he's at Disney World, he's there on vacation.

The point is, people unconsciously, innocently, and frequently think they know more than they do, which leads to "I don't need the intelligence" in its various forms: not gathering intelligence, thinking the answers are obvious, oversimplifying the situation, etc.

What they need, though, may not be the intelligence itself. In our experience at Advanced Competitive Strategies (ACS), strategists usually have boatloads (using large boats) of information, with more docking every day. In a sense, they may be right: they *don't* need intelligence, at least not *more* intelligence. What they need is a way to apply intelligence (reasoning, analysis, and questioning) to the intelligence (data, estimates, and indicators) that they've got.

ACS has implemented roughly 100 business war games, feeding intelligence into our simulation models, for major companies around the world. The war games differed by industry, geography, strategic challenge, current strength of the business, and more. With all their differences, though, two outcomes were common to all of them. One: the strategists were surprised by the results of the simulations. Two: they believed the results. Even though they knew their businesses well, strategists were still able to get serious new insights by applying their intelligence in a new way. Those who took action on those insights were able to score serious improvements in performance.

What To Do

Just as it was time to dispense with the elephant analogy, it's time for us to change the question about the value of timely, relevant intelligence.

The question is not whether intelligence *is* valuable. The question is how to *make* intelligence valuable.

Timely, relevant intelligence is critical to good strategy decision-making. The intelligence isn't critical by itself because the intelligence doesn't speak for itself. It is critical because it is the factual information without which decision-making relies at least partially on guesses and luck.

Key steps to take:

- When you decide what intelligence to gather, ask yourself how it might be used. Will it really add value to decisions (explore the concept of the "value of information"), or is it on the list merely because everyone does it or that's how we've always done it?
- When you decide what intelligence *not* to gather, ask yourself what you might do differently if you did gather that intelligence and the numbers turned out to be very different from what you expected.
- Learn about the process of decision making, which is different from the discipline of decision analysis. It can affect your intelligence-gathering.
- Use the intelligence you gather with tools such as scenario planning, business war gaming, strategy simulation, and so on. Those techniques often (not always) apply what-if and causal thinking that will yield unexpected treasures.

Timely, relevant intelligence supports good strategy decision-making when it partners with good strategy decision makers. Those decision makers use intelligence as much to generate questions as to answer them. The vigorous, symbiotic interaction between data-intelligence and thinking-intelligence produces intelligent decisions.

About the author

Mark Chussil is Founder and CEO of Advanced Competitive Strategies, Inc. (www.whatifyourstrategy.com), and lead creator of the award-winning ValueWar® strategy simulator. He and his colleagues at ACS have implemented business war games for dozens of Fortune 500 companies around the world. He has published extensively and spoken at numerous conferences. Mark is also a Founder of Crisis Simulations International, LLC (www.crisissimulations.com). Prior to founding ACS, Mark worked at The Strategic Planning Institute (The PIMS Program) and Sequent Computer Systems. He earned his B.A. from Yale and his M.B.A. from Harvard.

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