You've Got the Data. Now What?

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Imagine that you work in one of the three companies below. You recently started a competitive intelligence (CI) function, and you'd like to help your company solve a knotty competitive strategy problem. What would you and your new CI function do?

1. *Your company is a major airline*. Its strategists recognize the complexity of airline pricing. They've come up with a revenue-neutral plan to simplify airfares, which would make customers happy. Would you advise them to implement it? What, if anything, would help you decide?
2. *Your company makes pharmaceuticals*. Top management has set a goal: triple sales for a product within 18 months. That performance is about average for products of this type. Would you advise the product managers to take on the challenge? What, if anything, would help you decide?
3. *Your company makes industrial products*. It's an unprofitable, capital-intensive business; price is paramount. Your engineers find a way to cut costs so the company can cut price, gain share, and boost profits. Do you think it will work? What, if anything, would help you decide?

These situations are all real and with slight variations, very common. Although their challenges may sound different, they all share something important. It's not the need for sophisticated analytic tools or detailed data. (Interestingly, James Surowiecki, in *The Wisdom of Crowds*, cites research demonstrating that adding information sometimes reduces the accuracy of decisions.) It's not the ability to consult history or experience, especially because there is no history or experience when you're about to change the game.

What's common to these challenges? They cannot be solved — emphasis on *solved*, not merely "responded to" — with data and information alone. Instead, they must be solved by *combining* intelligence (knowledge) with intelligence (human decision making). They require CI in that big, dual sense of intelligence. Your competitive intelligence function must make full use of information, market research, simulation models, management judgment, and business war games. If your CI function is not equipped to provide that level of decision support, it will quickly be sidelined or even disbanded.

The Fate of Your New CI Function

The sad, lonely, loyal Maytag repairman is a classic marketing image. He waits stoically for his phone to ring, knowing all the while that his services will never be required because Maytag machines are so reliable. We feel so sorry for him we almost want to sabotage our appliances.

That's not the fate you want for your CI function. You don't want your data to gather dust while your company grinds blithely on. You don't want to compile reports and crosstabs and profiles and predictions seen by few and influencing fewer. You don't want your hard work to become misused.

You've created the function and you've gathered intelligence. Now what? How can your company make best use of your CI? More than anyone else, you're the one who's responsible for that "now what."

Going All The Way To Success

We take as a given the usual prescriptions described elsewhere in this book: make your competitive intelligence relevant, work closely with your internal customers, build internal networks, be responsive, don't mistake precision for usefulness, and so on. Those steps will take you perhaps a third of the way to success. The next third comes from connecting data to decisions. Many frameworks and techniques such as business war games, Porter's Five Forces, SWOT analysis, and so on will help you do this. However, great decisions don't come from simply plugging data peg A into data slot B. Which brings us to the last third: how your new CI function can improve the quality of your company's decisions.

Making better decisions than your competitors is a competitive advantage. Arguably, it is *the* competitive advantage. Your company's decision to build a CI function says that it recognizes CI's importance. Great CI doesn't guarantee great decisions, and great decisions don't guarantee great performance. But having an effective, decision-focused CI function improves your company's odds of making those great decisions.

Link CI To Decision-Making

In my experience, the biggest CI-related shortcoming in companies has nothing to do with its quantity and quality of CI (the first third of the way to success) or its practitioners' familiarity with analysis techniques (the second third). Rather, the biggest CI-related shortcoming is in the last third, how you link competitive intelligence to decision-making. This means more than gathering CI and persuading the right people to use it. It means gathering the right CI and using it well. It means combining good information, good analysis, and good decision making. That's tougher than it sounds, and it's more valuable than it sounds. The flip side: if it were easy, your competitors would be doing it too.

Your CI function's responsibility doesn't begin and end with gathering and presenting information. Its responsibility extends to applying CI to improve decision-making. If the CI function doesn't do it (and do it well), who will? And so, in this chapter we explore the link between competitive intelligence and competitive-strategy decisions. In other words, we will explore the *now what* of getting real value from your CI function.

Why Bad Decisions Happen

No one intends to make bad decisions, yet bad decisions happen. Not having competitive intelligence contributes to bad decisions. You know that; it's one reason why you've started up a new CI function. However, people make bad decisions even when they have CI. For instance, surely Detroit has long known what other car makers are doing. Their painful, visible, decades-long, multi-trillion-dollar decline didn't happen because they lacked some essential factoid.

Bad decisions happen even when we try hard to make good decisions, even when we invest in CI, education, motivation, experience, track records, consultants, and more. The fact that these attributes exist when both good and bad decisions are made tells us that the attributes are not enough by themselves to prevent bad decisions.

Bad decisions are caused by something other than the presence or absence of CI, education, motivation, experience, track records, and consultants. I believe it's due to something about decision-making itself. The good news (and it is genuinely good) is that

since no one wants to make bad decisions, we can appreciate the improved decision-making made possible with competitive intelligence.

Hidden Traps

Whether you're a competitive intelligence novice or pro, you encounter many hidden traps on your path to adding value with your new CI function. You, your colleagues, or your internal customers may fall into these traps. It's a challenge to avoid them because most are invisible and unconscious, and some are actively (though unintentionally) reinforced. Since you're just getting started, you have a unique opportunity: traps are easier and cheaper to stay out of than to get out of. Here's a review of several common traps:

1. Conventional tools
2. Overconfidence
3. Innumeracy
4. Monsters
5. Obviousness

1. Conventional Tools

Symptoms

The presence of one or more of the following tool traps. They may be accompanied by fetish-like affection for specific techniques.

- *Multi-megabyte profit and loss spreadsheets*. Watch for a dozen or more categories of "other expenses" or for any quantity being displayed with three or more decimal places.
- *Forecasts from extrapolated trend lines or esoteric statistical procedures*. Beware of anything that sounds like triple Doppler interdecorrelated pre-lagged post-logarithmic hypertoroidal revenue, adjusted for seasonality.
- *Benchmarks with surface validity*. Examples: companies in our industry spend X% of sales on research and development, it takes Y months for a product-line extension to become profitable. In severe cases, benchmarks are interpreted as minimum acceptable performance.

Causes

Belief (usually unconscious) that financial statements show causes, not effects. Also a belief that the past will persist into the future, except for those changes that are beneficial to our company. (For more in this vein, see Chussil 2005.)

Explanation

Financial projections, taught as a management tool, are used in virtually all strategy decisions. They even seem to succeed, though that's often because people work hard to "make the numbers." As a result, the cause (the make-the-numbers contortions) masquerades as an effect (the projections were sensible, as "proved" by the fact that we made the numbers). Or the projections appear to work because the environment was predictable, not because the predictions were prescient. Trend lines succeed when underlying conditions persist, and they break when conditions change. Unfortunately, the times when conditions change are the times when you most need help and when projections are least able to provide help.

Few spreadsheets, forecasts, or benchmarks take into account CI-related issues. For instance, the concept of "competitor reaction" is generally absent from financial analysis. An analysis falling into this trap assumes that competitors will behave as desired (usually by holding still) and that the strategy will work. (See the story of the Shell business war game in Reibstein 2004. For critiques of other tools, see Clancy 1993.) For that reason, decision makers are often unfamiliar with CI's importance. They may ask you to show how decisions using CI affect the bottom line, which, although possible, is difficult to show rigorously. Consequently, decision makers are often reluctant to dilute what they perceive as "hard" analysis with "soft" CI.

Conversely, competitive intelligence practitioners may think it impossible or unnecessary to link CI insights to quantitative analysis. They may regard the conflict between CI insights and quantitative analysis as inevitable, and something to be overcome with persistence or persuasion.

So what

As long as your competitors use the same conventional tools, you may not be entirely vulnerable, at least to them. (Unless they get lucky or visionary.) However, you may be very vulnerable to new market entrants, especially if they're start-up companies that

don't view the world through the same tools. Arguably the only advantage a start-up has is its different way of looking at an existing problem. The upstart invests in R&D to build business. The incumbent budgets R&D to manage profits.

Now what

Confronting these symptoms directly can cause resistance or backlash. Instead, try the following approaches.

Conferences and executive-education programs create safe environments to explore ideas. In them people are more open and receptive to "let's talk about spreadsheets," perhaps because it feels very different from "let's talk about *your* spreadsheets." Corporate universities can make it safe and even prestigious to learn, adopt, and spread thought-provoking ideas.

Talk to strategy decision makers about how they're going to make upcoming decisions. Ask what competitive issues cause the greatest concern to them. Have them describe why those issues are important, and how they'd impact the bottom line. This process can help both of you link CI and expected performance, thus establishing value and a clear need.

In my workshops I've found that people rarely resist the idea of connecting CI to quantitative analysis. Rather, they usually believe it's impossible, not undesirable. (It is possible, although it's not trivial, and a how-to description is beyond this chapter's scope.) Decision trees, system dynamics, scenario planning, and simulated-market models are very effective at linking competitive dynamics to bottom-line results.

2. Overconfidence

Symptoms

> *I know the answer. I've been doing this a long time. Our analysis works fine. Doing something else will just waste money and/or time.*

Being noble and pure, we acknowledge that these symptoms can show up in ourselves as well as in others. It's hard to catch in ourselves, because (as we're about to discuss) we're unconscious of it.

Causes

We are human. Humans are demonstrably and unconsciously overconfident. (See Russo 1990. Incidentally, I have run variations of the exercise on page 71 of that book numerous times with management groups, and consistently obtain similar results.) Perhaps it comes from:

- how we interpret our experiences
- being in a position of authority ("I must know" or even "I'd better know")
- shared beliefs in a corporate culture
- the accolades we shower on bold visionary follow-me heroes.

In a sense, we even *encourage* overconfidence by rewarding boldness over thoughtfulness. Whatever the cause, overconfidence is extremely common.

Explanation

Note that we are *unconsciously* overconfident. We don't think we are overconfident; we think we are appropriately confident. The result of overconfidence is that we stop thinking too soon. If I know the answer, why should I keep thinking about the question?

Managers are justifiably proud of their knowledge, experience, and skill. They think the right decision is obvious. When they discover (often by using a quantitative simulation of their market in a business war game) that their strategy won't work, they rapidly go through three steps:

1. They are shocked.
2. They ask new, "what if?" questions.
3. They accept the analysis and act on it.

I've seen executives in airlines, consumer packaged goods, gasoline, paper, pharmaceuticals, telecommunications, and other industries agree quickly to make 180-degree shifts in strategy after a war game.

So what

No one (including you and me) spends time or money looking for an answer they believe they already have. Failed strategies can come from overconfidence. The authors of those strategies are not stupid, misinformed, or complacent. On the contrary, they work hard to succeed. They are human, and overconfident humans make conscientious, well-intentioned mistakes. Ironically, long experience in a field can (though it doesn't always) contribute to overconfidence, since a series of successes may instill a false sense of predictability or certainty (see Taleb 2005). Reinforced experience can become unconscious habit.

Now what

It doesn't work simply to tell someone they're overconfident, and it especially doesn't work to tell someone they're wrong. Would it work on you, especially on a subject you know well? And there's a conundrum: if I tell you that you're overconfident, how do we know which of us is overconfident?

On the other hand, people are not willfully overconfident. I've found that interactive exercises are effective overconfidence-busters because people discover overconfidence for themselves. Here are examples of such exercises:

- *Brainstorming about future scenarios*. Imagining what *could* happen enjoyably and efficiently deflates overconfidence about what we think *will* happen. Plus, you can test your strategy options under the scenarios to see which are most robust, come what may.
- *Creativity exercises and contests*. Imagine that you have a bathtub and it's filling up with water. You want to prevent it from overflowing. You don't have to be practical. Try this now, before you read further: How many ways can you come up with to prevent the overflow?
- *Business war games*. Having opponents — your colleagues, as they role-play your competitors — do their best to bring down your business is sobering at first, and then it becomes liberating and invigorating.
- *Semi-serious games*. Games that aren't too closely connected to your business relax some of the emotional commitment to being "right" and hence open the mind. So does fun. Find inspiration from Sivasailam Thiagarajan at www.thiagi.com and from *How Would You Move Mount Fuji?* by William Poundstone.

About that bathtub. I've run the bathtub-overflowing exercise many times and I've heard at least 50 different methods. It sure punctured my overconfidence about how many methods there are. How about yours?

3. Innumeracy

Symptoms

Some analytic, logical, mathematical, and statistical errors indicate innumeracy. Innumeracy isn't about errors of numerical computing, such as miscalculating the 217th digit of pi. (Which, if you're interested, is 4, according to http://www.joyofpi.com/pi.html.) Rather, innumeracy is about errors of numerical thinking, and it leads to unsupported or downright wrong conclusions.

Causes

Some of us are comfortable and skilled with numbers, and some are not. (Just as some of us are comfortable and skilled with finance, marketing, golf, foreign languages, cooking, painting, sports, or public speaking, and some are not.) The problem comes from denying the problem: "I'm not a numbers person" is a request for assistance, not an excuse to dismiss or ignore numbers.

Explanation

As John Allen Paulos puts it, the odds that a person speaks Spanish given that he or she is a citizen of Spain are very different from the odds of a person being a citizen of Spain given that he or she speaks Spanish. For much more, I recommend his delightful books about innumeracy (Paulos 1989, 1992, and 1997).

Here are some other examples. Say a study reveals that 64% of people surveyed believe something, with a margin of error of ±2 percentage points. What does that mean? *Not* that "the truth" is between 62% and 66%. It means that the repeating the study, using the same process, will probably produce an answer between 62% and 66%. If the study was flawed — a biased sample, for instance — you'll get similar results when you repeat the study, and both studies will be wrong. A narrow margin of error on a flawed study produces a false sense of truth.

Say we want to predict a competitor's future price-cutting behavior. When we look at their pricing history, we may compute how much they cut prices in the last few years. It would be more valuable, though, to know how much they cut price given someone else's prior price cut (perhaps ours), versus how much they cut price when unprovoked. It makes a difference to know whether they cut prices every quarter or that they never cut prices unless a competitor cuts first.

Imagine watching a TV news vignette about a study: "In the industries studied, the most-profitable companies began their business day at 8:00 a.m." Cameras show the doors opening smartly at 8 sharp. Smiling employees greet grateful customers. The owners, holding cups of steaming coffee, proudly attribute their success to their early-bird work ethic.

- The easy question is begged by "in the industries studied." Were the industries studied like yours? (The easy question may be irrelevant and even deceptive. Assuming that surface dissimilarities are weighty, even causal, is a form of innumeracy.) Don't stop there, though, because next two issues are far more important.
- Another question is what time of day the least-profitable companies opened for business. If they opened at 7:30, you might draw one set of conclusions. (Remember the bathtub. How many possible conclusions can you think of?) If they opened at 8:30, you might draw different conclusions. If they opened at 8:00 too, that would suggest the opening time doesn't matter.
- A third question is whether the most-profitable companies are different from the least-profitable companies for reasons other than time of opening, such as industry, age of company, location, market-segment served, and more. In other words, even if the opening times were different, the times may have nothing to do with the companies' profitability. (The PIMS Program, operated by the Strategic Planning Institute, produced a tremendous body of analysis and literature concerning what's different between successful and unsuccessful businesses. See Schoeffler 1974 and Gale 1987.)

Without answers to all three questions, the "profitable-at-8:00 a.m." report sounds intriguing and actionable, and means exactly nothing. Act on it if you will, but don't say the data told you to do it.

So what

What can happen as a result of wrong numerical analysis or inference? (I don't mean garden-variety imprecision, which is benign by comparison.) Well, what would happen

if your company incorrectly assessed its costs, or misunderstood customer needs, or mistakenly believed its competitors were on the ropes, or built too much or too little production capacity?

Now what

Some people (such as your friendly author) feel entertained by such as the above, and enjoy combating personal innumeracy. Others feel bored, put off, or frightened, or are for other reasons unlikely to pursue the subject. The solution isn't to dispense with numbers or to think wishfully that the "details" can safely be ignored.

Here's another approach. One company I've worked with has a group of researchers charged with finding out whether things were true, false, or unknown. You could have a person serve as an expert numerical resource in that same spirit. That person could assist those using numerical analyses. They could review analyses before they're distributed or study designs before the studies are conducted.

There's a problem when we want to know something unknowable. In the example of the competitor who cut prices, we might want to know how likely they are to *raise* price if we raise price first. If the competitor has never raised its price (or if we have never raised ours first), we have no history to use as a guide. It's debatable whether history would be a guide anyway. For instance, what if the competitor has new people making its pricing decisions? Companies don't make decisions and trend lines don't make decisions. People make decisions.

What should we do? Assume that they're as likely to match a price increase as they are to match a price decrease? Assume that they won't raise price because they've never done so? Raise our price and see what they do?

A different way to tackle the unknowable problem is to think about the "personality" of the competitor's management team: the pressures they feel, their marketplace objectives, how they view pricing, how deliberate or aggressive they are, and so on. In other words, do competitive intelligence. In effect, you construct a behavioral profile or model of how they make decisions, as opposed to a numerical description of their previous actions. You may find it thought-provoking as well as useful.

Revisit the section on conventional tools and see it in terms of innumeracy. For instance, using accounting-based spreadsheets to predict market shares is as much an issue of innumeracy as it is of being unaware of the limitations of common strategy-development methods.

4. Monsters

Symptoms

We believe that our competitors are gratuitously aggressive, unprincipled thugs dedicated to our destruction, and generally evil. We are gracious model citizens dedicated to peace and prosperity, and generally benevolent. So *we* (the good guys) are fundamentally different from *them* (the monsters).

Causes

A belief that our success requires their defeat. A business model or compensation system built on success metrics that embody win/lose outcomes, such as market share or customer switching. Because every market has exactly 100% market share, a share-win for you necessarily means a share-loss for someone else. (Many people point out that it's possible to grow the market, which may benefit everyone. True. And the bigger market will also have exactly 100% market share to spread around.)

Note that those causes may have their roots in reason. One way for us to increase our sales is to woo customers who would otherwise buy from them. The issue I'm raising is not competition, though. The issue is vilification.

Explanation

Psychologists find that people take too much credit for successes and pass too much blame for failures to others. (See Bazerman 2005.) Psychologists also find the *fundamental attribution error*, where people attribute others' behavior to their intentions while explaining their own behavior as being influenced or even compelled by the situation. It's called fundamental because it's so widespread and universal. It's called an error, not bias or difference of opinion, because the attributions are often patently incorrect. (See Plous 1993.)

I observed the fundamental attribution error in action during an executive-education program at the Wharton School in which I lectured. During one session an executive made a monster statement. The professor asked for a show of hands: how many people have experienced a competitor taking action designed to inflict pain or otherwise damage their company? Every hand shot up. The professor then asked how many people had worked for a company that had taken action designed to inflict pain or otherwise damage a competing company. Every hand shot down.

So what

The monster trap can hurt you and your company for at least four reasons:

- A belief that your competitors are monsters can discourage you from gathering CI that could say otherwise, and hence can lead your company to build its strategy decisions on a bad foundation.
- The monster belief focuses attention on beating the enemy rather than, say, on delighting the customer.
- It can foster angry, knee-jerk reactions to competitors' actions.
- Assuming that your competitors want to crush you will make you dismiss action alternatives that could produce win/win outcomes.

Now what

At one level, the cure is simple: remember that *people* make decisions at your competitors' companies. They want to succeed, they want to be heroes, they want to protect their livelihoods. Their people are pretty much just like your people, and pretty much just like you. You are not a monster (no matter what they think), and neither are they.

At another level, competitive intelligence is the perfect solution. The more you know about your competitors and the more you gather intelligence that could *disprove* the monster theory, the less likely you are to erroneously attribute motives to them. Also, the more likely you are to predict correctly how they will behave.

Some CI functions have shadow teams, people who do their best to get inside competitors' heads. Those experts become the closest a company can legally and ethically come to asking a competitor what it will do. The more they know about competitors, the less likely they are to fall into the monster trap.

Role-playing exercises, such as those in brainstorming or business war games, can also thwart the monster trap. When you are placed in a competitor's shoes, you don't suddenly think of yourself as a monster. Rather, you start to see things — including your own company's behavior — from their non-monstrous perspective. You understand them and their decisions better; you make better decisions.

I'm not suggesting that you think of your competitors as your best buddies. (On the other hand, it may pay to remember that they, like you, have a vested interest in the health of your market.) Rather, the point is not to reflexively think of your competitors as committed to your pain and suffering. Biased thinking won't help you.

5. Obviousness

Symptoms

Someone proclaims that a strategy or an answer is obvious, that the numbers speak for themselves, that everyone does [whatever], etc. This can be a complication of the previous traps: conventional tools, overconfidence, innumeracy, and/or monsters. It's particularly insidious because the things that seem so obvious are, well, so obvious.

Causes

Groupthink, tradition, habit, or an organizational bias toward boldness and action. (One can easily get rewarded for action without thinking. One rarely gets rewarded for thinking without action.) It can be exacerbated by overwork or hostility toward contrarian thinking.

Explanation

Consider the fictitious information in Table 1. Assume that the numbers are clean; no innumeracy and statistical traps here.

Table 1

		Market ratings *(0=bad, 10=good)*	
Purchase criteria	**Importance weight**	**Us**	**Them**
Product quality	45%	8.2	7.8
Service	25%	7.1	7.1
Ease of use	20%	5.4	7.2
Convenience	10%	9.2	6.6

It's obvious what we should do:

- Work on product quality, because it's the most important to the customer. Biggest bang for the buck!
- Work on service, because it's an opportunity to differentiate. An important criterion, and we can have it first!
- Work on ease of use, because we are at a serious competitive disadvantage. We're getting killed here!
- Work on convenience, because we have an advantage we can exploit. Make it more important, target a convenience-oriented segment. We can own convenience!

As compelling as all those obvious statements are, they're all wrong. Or at least none of them is right, yet. We need to know more before we can decide which (if any) to pursue. What are the costs of making each obvious change? How long will it take? What are competitors doing now? What will they do if we make a change? What will they do if we don't make a change? How much improvement can we make? Do we have a better place to invest the money? Incidentally, notice that making the numbers more precise won't help.

It's obvious to me that these numbers do not tell us what to do.

So what

Sometimes an obvious action is right. (It's not right *because* it's obvious, though.) Sometimes an obvious action is wrong. Sometimes an obvious action won't hurt because competitors, falling into the same obvious trap, don't take better action themselves. Sometimes we interpret disappointing results as happening *in spite* of obvious action. However, questioning what's obvious, especially if its obviousity hasn't been questioned for a while, is one of the best ways to make changes increasing your competitive advantage and to prevent losing out to a clever competitor's surprise move.

Now what

I'm not suggesting questioning *everything*. I'm willing to believe without further evidence that, say, a huge, ugly, bungled product recall will damage our reputation. The point is that innovation — yours and your competitors' — comes from questioning the obvious and the traditional.

One approach is to set aside some time in strategy discussions to identify explicitly where a decision is based on '"it's obvious" assertions. They may show up in assumptions about customer reactions, competitive responses, time required to achieve a goal, and so on. They will be hard to spot precisely because they seem obviously right, especially if they are part of the corporate culture/groupthink.

Competitive intelligence practitioners are in an ideal position to notice and question "it's obvious" assertions because they have no vested interest in the decision itself. Rather, they have a vested interest in the quality of the decision. Outside consultants can be useful as well because they can be objective and they love to be skeptical.

Here's another approach. A logician, a philosopher, and an annoyingly inquisitive 5-year-old walk into a bar. (Okay, a conference room.) Start with the objective; say, sales growth. Channel your inner 5-year-old and ask, "Where does sales growth come from?" The logician says, "It comes from competitors' customers deciding to buy from us, from attracting more customers to the market, and/or from having our current customers buy in larger quantities." The 5-year-old: "Where do customers come from?" (You could use a biologist to answer that question. I won't.) The philosopher answers, "From people having a need." "What do they need? How do they know I can give them what they need?" And you keep going, creating a kind of flow chart or system diagram that

connects sales growth to antecedent entities and actions. You identify causes, effects, investments, competitive dynamics, and so on, all linked to your market. You'll be able to judge the value of "it's obvious" statements.

A thought-provoking question that can help is "What has to happen for our strategy to succeed?" You don't have to go to the level of "the earth must keep rotating." Do use it to go from "we'll be known as the clear safety leader" to "we have to be first to market with the new padding."

"It's obvious" assertions are important to identify when high-stakes decisions depend on them. Design your intelligence-gathering to test them. You have to be first to market with the new padding? Find out if you will be. Alternatively, develop a pre-emptive move or a contingency plan. A pre-emptive move might be presenting a prototype to the press, showing them that a helmet with the new padding absorbs a blow from a sledgehammer. A contingency plan might be to prepare two advertising campaigns: focus on innovation if you are first to market, focus on product comparisons if you aren't.

Now What?

At the beginning of this chapter you put yourself in the shoes of decision makers at three companies: the airline that might simplify its fare structure, the pharmaceuticals company that wants to triple sales of a product, and the industrial-products company that has room to cut prices because it's cutting costs. You faced two questions: what would you advise, and what would help you decide.

The point of those questions was not to come up with the "right" answer, but to contemplate how your new competitive intelligence function could add value to important strategy decisions. The point was also to see where and how conventional tool, overconfidence, innumeracy, monster, and obvious traps can operate.

Here's what happened in those three cases. As you read, notice where they (or you) could (or did) fall into traps.

The Airline

> *Its strategists recognize the complexity of airline pricing. They've come up with a revenue-neutral plan to simplify airfares, which would make customers happy. Would you advise them to implement it? What, if anything, would help you decide?*

Conventional tools would reveal how much customers would adore simpler fares, and it'd be easy to say "it's obvious that this is a good move." Your new CI function can help your management avoid those traps, because you'd realize that the key issue for the simplified fare structure doesn't concern prices. It doesn't even concern customers. It concerns competitors.

Customer reaction to simpler pricing is reasonably predictable: they'd like it, even if overall prices didn't change. But how would competitors react? If they misread it as a price cut, or if applying the new pricing structure to their airline would not be revenue-neutral, the new pricing could trigger a price war. (Airlines are rather prone to price wars. What traps do they fall into that make them so susceptible to price wars?)

Notice the issue isn't about competitors' histories, trends, plans, products, or numbers of any kind. It's about competitors' personalities. It's about how they perceive their business, it's about what they believe (rightly or wrongly) drives their bottom line, it's even about their emotions. That's why your new CI function has to go beyond getting into competitors' actions; it has to get into competitors' heads.

Recognizing the competitive delicacy of their decision, the airline conducted a business war game. They assigned some of their people to role-play their airline, and others to role-play competing airlines. Those individuals selected to role-play the competitors did not have prior contact with the pricing-strategy deliberations, so they weren't biased by what the airline hoped the competitors would do. In effect, the airline's CI resembles the personality profiling we discussed in the section on innumeracy.

In the war game, the people role-playing the competition saw the airline's simplified pricing as a price cut. A price war followed. Of course, the real-life competitors might behave differently. On the other hand, that would be a risky bet, especially when the available indicators (industry history, competitor personalities, and the war-game re-

sults) all suggest otherwise. As a result the airline decided not to roll out the new, simplified pricing.

The Pharmaceuticals Company

> *Top management has set a goal: triple sales for a product within 18 months. That performance is about average for products of this type. Would you advise the product managers to take on the challenge? What, if anything, would help you decide?*

The pharmaceuticals company faced a classic performance-target problem. Corporate wants the business unit to stretch and push as hard as possible; the business unit wants a performance target it can attain. Did you recognize the potential for innumeracy and conventional-tools problems? (For instance, why is tripling sales a reasonable goal?) Going deeper, what impact might competitors have on your ability to reach that goal?

The pharmaceuticals company attacked the innumeracy and conventional-tools problems head on. They conducted a business war game in which they used role-playing to anticipate their competitors' reactions and computer-based simulation to calculate the market-share and profit outcomes.

In the war game we ran many simulations: every combination of every strategy suggested for each competitor against every strategy suggested for the pharmaceuticals company. It was an effective collaboration of human ingenuity (developing the strategy alternatives) and computer technology (doing massive arithmetic).

The bottom line: tripling sales was possible only in unrealistically optimistic scenarios, such as their business being very aggressive and all competitors doing nothing in response. (The Santa Claus syndrome is like a reverse monster: competitors who joyously let you operate without resistance or response.) In more-realistic scenarios, results varied from a slight improvement in sales to possibly doubling them. In the most-pessimistic scenarios, where competitors became aggressive and the company responded meekly (perhaps due to a vicious circle: you're not providing the profits we want, so you don't get the budget you want), product sales could even fall. Fortified with rigorous thinking and calculating, business-unit and corporate management (corporate isn't a monster either) found common ground in performance goals.

By asking *what has to happen* in your new competitive intelligence function, you prepare to tackle those questions. Being attuned to your competitors' goals and strategies, you can imagine how they'll react to your moves or try to preempt them. Working on ways to estimate future results rigorously and numerately, you and your company will be better able to set reasonable expectations and budgets.

The Industrial Products Company

> *It's an unprofitable, capital-intensive business; price is paramount. Its engineers find a way to cut costs so the company can cut price, gain share, and boost profits. Do you think it will work? What, if anything, would help you decide?*

By now your new CI function knows how to respond to the industrial-products situation. You will easily, reflexively turn the tables. You won't stop at the question "*what do we want for our business?*" You will automatically ask the question "*what will our competitors have to say about that?*"

Look again at the description of the problem and notice the "it's obvious" assumptions, born decades ago and cemented by decades of mental repetition:

- Price is paramount. (Corollary: forget about differentiation.)
- We must cut costs before we cut price.
- Cutting costs means prices should be cut.
- Cutting prices will make us gain share.
- Boosting share will boost profits.

Notice how their conventional tools putatively validated their "it's obvious" statements. Detailed spreadsheets showed they could cut their prices, sell more, spread their fixed costs over larger volume, and (therefore) enjoy good profits, because their cost-disadvantaged competitors couldn't afford to match their new price. Notice also the overconfidence that we'll be the only ones to cut costs and cut prices, and therefore we will gain share and boost profits.

All involved (except one person) accepted those ideas and assumptions as truth at the start of their business war game. (The exception was the vice president who champi-

oned the war game.) They role-played their business and their competitors. A simulation model, calibrated with their knowledge of the market, adjudicated the results.

What they saw stunned them. Their colleagues, role-playing the competitors, decided they couldn't afford not to match the reduced price. As a result, copious money would be lost, not made.

Once over their surprise, they became creative. They found ways to differentiate their supposed commodity, largely through better relationships with distributors. They implemented their ideas, did not cut their price, and swung to profitability. Why did that work? Competitors can fall into the conventional tools and "it's obvious" traps too.

A Common Thread

Notice that in all three cases the competitive intelligence-savvy decision makers who initiated the business war games didn't fall into the conventional tool, overconfidence, or obvious traps. We know that because they decided to run business war games! Moreover, they had the courage to let the war games go where they would; they did not push the war-game participants to adopt or avoid certain strategies.

Within the business war games there was ample opportunity for participants to fall into all the common traps and others not described in this chapter. And fall they did, as do participants in every business war game I've seen. That's why it's fruitful to run multiple rounds in war games, where you turn back the clock and let participants try again. The second round always produces deeper, richer, more-creative thinking than the first. This makes sense, since the surprises and disappointments of the first round help strategists recognize and avoid the traps we've discussed.

It's Worth It

The insights from the three cases seem obvious. Perhaps they are, after the fact. Before the war games, they weren't. Every one of them surprised the companies' smart, experienced, and dedicated strategy teams.

The most valuable consequence of establishing the right CI function, applying it with effective methods, and conscientiously avoiding decision traps is that you pierce through tradition, habit, denial, and complacency:

- It's one thing to tell something to someone; it's another thing for them to experience it.
- It's one thing to enjoy rosy fantasies about a business; it's another thing to see smart, determined attacks against it.
- It's one thing to ask for outside-the-box ideas in a conference room; it's another thing to feel intense competitive pressure to think differently.

In my experience, breaking through the traps makes "ah-ha" insights the rule, not the exception. At least one major surprise comes from using CI in a new way, from seeing competitors in a new light, from thinking differently about one's own business. Couldn't strategists get those insights in some other way? Based on my experience, apparently not.

What does it take to for you to foster great strategy decisions with your new CI function? More than just timely CI (the information), clever analytic techniques, well-intentioned decision-makers, and good decision-making skills, it takes creating synergy among them. Your CI people are ideally suited to work with strategists and decision makers to create that synergy.

Now, here's what your new CI function can do for itself:

- Watch out for the traps in your own function. They can unconsciously and invisibly affect the CI you collect and how you use it.
- Ask "what difference would it make?" Decision analysts call this the value of information. It helps you avoid wasting time and resources on unnecessary precision or flat-out useless data.
- Ask "what has to happen?" It highlights what you need to succeed and thereby identifies key factors to track.
- Tap unconventional CI resources. For instance, the companies in the three cases received some of their best CI by role-playing competitors.
- Competitors aren't monsters or Santa Clauses, and they're also not stupid. If they do something, they think it's a good thing to do. (Just like you and me.) You'll learn

more about them if you ask yourself why they think something is a good move than if you marvel at why they did something so stupid.

- Put CI in context. Rather than simply reporting a competitor's price cut, talk about why they're doing it (Clear inventory? Build volume? Respond to someone else's cut?) and how competitors and customers might react.
- Remember that past moves don't necessarily predict future moves. Time is a measure, not a force. (Isaac Asimov or Arthur C. Clarke said that.) Do you do something because of trend lines or because the situation calls for it? Same for your competitors.

Yes, it's work. It's fun, too. And it's worth it.

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