

Build better decisions: strategies for reducing risk and avoiding surprises

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Did you ever make a business decision without all the facts? Did you learn something after you implemented your decision that you would have changed had you known it sooner? If the answer to either question is “Yes”, chances are you lost money, time, morale and the competitive advantage. All of these could easily be avoided with business intelligence.

What is business intelligence (BI)? Actually, it's a fancy way of saying it's a reality check of the marketplace. It is as a disciplined, future-focused, strategic investigation of the factors a company will face when competing. More specifically, it is the knowledge and foreknowledge about the entire business environment that leads to action.

Knowledge refers to information about the past; what is known; what has happened. Foreknowledge is information that comes from looking ahead. Entire business environment means looking beyond the industry and its direct competitors. Finally, action refers to the outcome from being better informed. Intelligence without action is a poor use of resources. The purpose of business intelligence is to assist with creating better strategy.

The bad news, the good news and the great news

The bad news: decisions are often based on poor or inadequate information. The good news: most executives operate in the same flawed environment. And, the great news: business intelligence offers an immediate competitive advantage, leading to better strategy. So, why do good companies make bad decisions? Here are some of the reasons:

- They rely on internally generated information.
- They are self-confident about what they know and don't conduct reality checks.
- They don't realize that their industry, customers, suppliers or distributors have changed.
- They're uncomfortable in dealing with what they don't know (change and external factors).
- They dismiss or underestimate changes.
- They rely on industry experts who may have the same industry blind spots.

Discover more about business intelligence and how it could assist your strategic decision making.

Executives make decisions constantly, all of which are based on information. Selected information is good; other information is bad, biased, incomplete or subjective. It is simply not enough to have information; it must be the right information – the kind that triggers smart decisions the first time. Some say that with enough good information, the decision makes itself. Bottom line: the better the quality of the input, the better the decision and the better the strategy.

Today, executives have a number of options when it comes to tools that support or validate their decisions. Balanced scorecards, benchmarking and focus groups represent some of the tools that business people shouldn't be without. Business intelligence is also one of the "must have" tools.

Myths of business intelligence

To gain a clearer understanding of business intelligence as a strategy-support tool, it helps to debunk the myths that result in a lack of understanding of the direct benefits in making better decisions.

Business Intelligence is spying. Business intelligence is a legal and ethical process of obtaining information. It does not include dumpster diving, lying to get information, deception, or using proprietary information that was legally obtained (such as a competitor's strategy, price or customer lists).

Business Intelligence is the same as market research. Market research focuses on what consumers say and changes they'd prefer, but it's not as useful for revealing actual behaviors. BI focuses on the reality of the marketplace, as opposed to beliefs.

Data is the same as intelligence. Data is a building block of business intelligence, but data by itself doesn't provide insight, implications or include analysis. Business intelligence is developed by looking at many pieces of data, analyzing the resulting information and drawing new conclusions or perspectives about a business that weren't previously known or understood.

Business intelligence is not only intelligence about competitors. On the contrary, it focuses on the entire competitive (external) environment, which more accurately reflects the many forces a company faces when competing. This includes customers, suppliers, distributors, advances in technology, regulations, substitutes and competitors. Satisfying customers and improving product offerings are far more important than monitoring competitors. Focusing on competitors implies that they know something you don't or their strategy is better and you want to find out what that is. Actually, the best reason to be aware of competitors is to detect if they have identified an important change that your company has not yet recognized.

There is lots of information about large public companies and little information about private or smaller firms. The reality is that

the amount of available information about a specific company is more a function of the public face the company seeks and the general interest in that industry. Some private companies receive more press coverage than public companies, and some private companies even file documents with the SEC. (US Securities and Exchange Commission). Conversely, some industries are poorly covered (by their trade magazines or associations) or are too small (usually industrial companies) to support coverage.

The business intelligence menu

Business intelligence uncovers basic information about the industry as well as information not so basic in scope. The specific areas selected, depending on the purpose of the research, can include:

- Size of market, growth trends.
- Major competitors' products and revenues.
- Product (or service) details.
- Pricing, packaging, materials, distribution channels, customer demographics, etc.
- Opportunities – to act on immediately or to monitor until ready.
- Potential problems/threats – identifying or not paying attention to a product/service that is not a direct competitor (e.g. accountants, attorneys as potential threats to financial planners) or not taking into a consideration how the growth of other industries affects the sales of products or services (e.g. sales of computer accessory products can be linked to the sale of computers).
- Alternative uses for (your) products or services – companies can easily discuss their products or services but are often unaware of alternative ways some of their customers use them. Customer views can enable a company to leverage existing capabilities (manufacturing or distribution) at a minimal cost and create a niche market. For example, Avon's Skin-So-Soft Body Lotion was rumored to be an effective mosquito repellent, and as word spread, sales soared. People who weren't Avon customers, such as men, started buying the product for this alternative use.
- Keys to success and barriers to entry when considering new market entry.
- Strengths, weaknesses, positioning of competitors.
- Strategy and sales organization structure.

The benefits of business intelligence

The benefits of business intelligence range from minimizing risk (less likelihood of having to redo the decision), to making smarter decisions, to saving time and money, to getting a jump

on the competition. The probability is very high that good BI will unearth crucial information unknown to the company, resulting in better strategy and decisions and doing it right the first time!

So why isn't business intelligence utilized more often? In part, the reason stems from American's self-confidence in its abilities to know something or to figure it out. Thanks to customized newspapers, alert services and narrowly focused industry newsletters, executives have access to a considerable amount of detailed information about their major areas of interest. As a result, they have less time and interest in expanding their news sources. Unfortunately, they miss critical information as well as the broader picture.

By accepting that these are changing times, then it follows that the information upon which decisions are based is also changing. Executives can certainly be confident about their knowledge of the past – they were there and experienced it first-hand. However, the rate and complexity of change in today's marketplace rapidly decrease the value of historical information, experience and conventional wisdom.

Business intelligence reduces the element of surprise in business. "Ninety-nine percent of all surprises in business are negative," according to Harold Geneen, former CEO of IT&T. Being surprised ultimately means being caught off guard by changes in the marketplace.

The time to engage in business intelligence

The purpose of business intelligence is to assist with strategic planning or other important decisions. Therefore, it's a good idea to use it during projects such as new industry introductions, product or service line expansion, customer prospecting, strategic plan preparation, pre-acquisition inquiry, and brainstorming. Here are some examples:

Entering a new industry

A company was planning to expand its training services into the popular new media training. They selected three industries to target for customers: advertising, publishing, and entertainment. Advertising turned out to be a total miscalculation because ad agencies expect their employees to have and maintain state-of-the-art skills. Agencies would not pay for their staff to take classes during or after work hours.

The client defined publishing as print publishing. This traditional part of the industry had no plans to incorporate new media into their offerings in the near future, so this wasn't a good target market. But electronic publishing, the other side of publishing, was interested and wanted to work with the client to develop and offer courses of greatest interest to them.

According to the client, TV and film businesses comprised the entertainment industry. The client hadn't factored in video, games, and software, which were part of a larger component of

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entertainment and also more interested. The result? The client learned which industries were most interested and why. Their limited investment in business intelligence cost them a fraction of what it would have cost them had they proceeded as originally planned.

Expanding line

A computer accessories company knew it had to constantly develop new products to keep up with a demanding and changing customer base. The company whittled its several dozen choices to two – both a good fit with its current manufacturing and distribution capabilities. Were both products the winners they were expected to be?

Product A appeared very promising, with sales increasing handsomely for the next three to four years. A deeper investigation revealed what the industry had not yet recognized, nor had competitors. Sales of this dedicated product would plateau and then decline because it was slowly being replaced by an off-the-shelf product that had uses in multiple industries.

Product B showed great promise, supported by sales and a very enthusiastic customer base that saw it as solving a small, but very annoying problem. The company believed that the low end of the market was the most promising, while BI indicated that growth would be far greater in the high-end, providing both a greater number of customers as well as greater profit.

Finding new customers

A company knew that its current product line would need to be replaced since manufacturing was increasingly moving to Asia. Lower prices and other solutions would only work in the short run, so they needed to find another product.

After considerable searching, the company found a new fabric that could have hundreds of applications. The company determined that they could get the biggest bang for the buck by using the fabric to make superior pizza delivery bags, solving two problems: soggy crust and barely warm pizza.

The company assumed that its customer base would comprise large and small pizza chains. Business intelligence revealed an emerging and unknown industry that had the potential to be larger in number than the number of current pizza outlets.

Surprising to all, this new customer base was the convenience store industry, of which there are 130,000 in the USA compared with 63,000 pizza outlets. More than 15 percent of convenience stores have bought pizza-making equipment, not to reheat pizza, but to make it from scratch. Further, one franchisee of 1,200 convenience stores was testing pizza delivery. Delivery represented a need for insulated bags.

As a result of this seemingly absurd discovery, the client had an opportunity to become established in an industry none of his competitors knew existed, while employing a two-pronged strategy of also trying to enter the traditional customer base.

While this example may appear unusual, most executives learn that much of today's reality includes some element of surprise – ranging from slightly different to truly off-the-wall. This applies to:

- customers which look different from the typical customer;
- alternative ways of using products or services;
- different distribution channels than are currently available or more convenient;
- competitors who don't resemble current competitors.

Accordingly, while business intelligence is valuable for all businesses, it's especially beneficial to small and medium-sized companies. Large companies usually have a financial cushion and can afford to make mistakes without going out of business.

Where is business intelligence found?

This is a trick question because business intelligence isn't found; it's created. Intelligence is not data; it's a process of looking at many pieces of data and arriving at new conclusions or insights. While it is possible to read or hear a statement that could be considered intelligence, it usually requires gathering sufficient data that are specific to a company's needs, analyzing them, and arriving at an understanding or decision that is applicable to the business.

Today, good information is available from numerous sources, ranging from the most obvious to the least likely. This includes information from printed sources as well as getting the information directly from those who are in the know.

The first place to search for information is from the industry's trade publications (magazines and newsletters), as well as the trade association. Executives usually read one or two trade publications, as these are usually the most respected trade publications. However, many industries have anywhere from 20 to 100 publications devoted to their interests, which likely contain useful information for those times when you need far more detail, depth or scope.

Information is available from a wide and diverse set of resources. The challenge is to determine where to find the specific information for a particular industry. For example, a

good source of company information is the local city where companies are headquartered or have local offices. Businesses are of interest to the media in cities of every size and often receive more attention from the local papers than they receive from the trade magazines or major newspapers. In addition, companies often underestimate the readership of a local paper and may let their guard down to discuss items they wouldn't discuss with their larger counterparts.

The information a company is looking for is likely to be "hidden" in an article, as it's rare to find an entire article devoted to a company's specific area of interest. It can be found in a paragraph, a phrase, a table or quote. Intelligence is similar to writing a term paper; look for pieces of good information from numerous sources, which then need to be organized, analyzed and logically presented in a useful document.

As for information that isn't available from published and printed sources, business intelligence practitioners contact those who have the desired information directly – such as companies, suppliers, distributors, major customers, and obtain the information ethically. This is often obtained via conversations, rather than through questionnaires and surveys utilized by market researchers.

Gathering the data: is the Web the mother of all sources?

The Web is often cited as the first and best resource, which may or may not be true. It certainly contains a lot of information unavailable elsewhere, but the information is extremely limited. Only an estimated 15 percent of business information is available from the Web – and that only represents those who know how to look for it. Another 10 percent is available from fee-based commercial databases, such as Lexis-Nexis and Factiva. The remaining 75 percent is not available electronically, or the site is open to members only.

The primary sources of business information are trade publications (75,000), associations (100,000), specialized newsletters (5,000), general business sources (*Wall St. Journal*, *Forbes*), conference proceedings, annual reports and other financial sources, public records, research studies and industry surveys. So, it's no wonder that many people turn to the Web to filter their options and help them feel as though they have some control over the uncontrollable amount of information.

What's the cost?

It's an executive's responsibility to be concerned about costs, especially regarding investments that aren't mandatory. Business intelligence is not a cost center. Just as going to an accountant for your taxes should save more money than the fees, the same is true for BI. Companies that invest in BI will save far more money than the cost of the initiative or the

department. Robert Flynn, former CEO of The NutraSweet Company, reports: “Competitive intelligence has helped us make more good decisions at Nutrasweet and fewer bad ones.” You go to an accountant to save more money than the accountant charges. Similarly, BI will save companies more than it costs, so it’s an investment, not a cost.

And if business intelligence serves to validate what was already known, the value will multiply as the company will proceed more aggressively, faster, and with more confidence than previously – gaining both time and advantage.

Unexpected insights learned from BI

While it’s critical to know the basics of an industry, it’s equally valuable to check out the other avenues that may pose challenges:

- *Industry terminology.* Over time, new words are introduced, existing definitions can change or be slightly altered, and original phrases come to illustrate specific periods. Keeping up-to-date improves marketing and selling. For example, SUVs were initially viewed as trucks; now they’re beefed-up passenger cars. Quality and reliability were once considered features in better cars; now they’re viewed as basics. Zero-defect cars are expected, not desired.
- *Changing competitor landscape.* At one time, direct competitors (companies that sold the exact same product or service) were considered the only competitors. The arena has enlarged to include substitute, indirect, and emerging competitors. Financial planners would describe their competition as other financial planners. Indirect and substitute competitors are companies selling similar or replacement products or services. For example, indirect and substitute competitors to financial planners include brokerage houses, attorneys, accountants, software, Internet, banks and insurance companies. Both indirect and substitute competitors are often dismissed by traditional and direct competitors as “not being as good or experienced as we are”. But, if the customer or prospect purchases from a company other than yours, the company must be considered a competitor worth noting. And the reason the competitor captures your customers is rarely price. Beware of start-ups and emerging companies that may not be considered threats because they are too small, but because of their ability to capture customers.
- *Unknown customers.* Then there is the group of customers that don’t match the target profile. Know it or not, this screams opportunity. By acknowledging them and learning more about their needs, companies can find others like them. Finding others like these

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undefined customers may merely require an adjustment in marketing and advertising positioning.

- *Alternative uses.* In almost every industry, there are those customers whose offerings are for purposes other than those for which they were designed. Opportunity knocks here to create a niche market with minimal investment. The proof of demand in the marketplace is the company’s sales.
- One example of both unknown customers and alternative uses comes from Plano Molding Company, Illinois. The wildly successful Caboodles cosmetic cases were created when the company learned that teenage girls were buying its functional, gray, metal fishing-tackle boxes to store their cosmetics. Manufacturing the exact same boxes in bright fashion colors, changing to plastic, and renaming the tackle boxes to Caboodles benefited the company three-fold: significant additional revenue, greater leverage selling to existing stores (where they would now have two product lines), and the ability to enter new venues – all because they listened to a totally different type of customer.
- Paintball capsules are another example. They use the very same pharmaceutical gel caps used to contain medicines. It’s the same product, but used in a totally alternative manner and targeted to an entirely different market.
- Customers sometimes see opportunities before companies see them. eBay customers were buying and selling cars even though the site didn’t have a category for doing so. eBay noticed the growing popularity of this area and dedicated a category to it, and are now the largest dealer of cars and parts in the USA.
- Nutritional meals in a can, such as Ensure or Slim Fast, sell extremely well among population groups that may not be targeted customers: addicts, the homeless (who get a considerable amount of nutrition in a single product) and very sick people because it’s easier to drink liquid than swallow food.
- *Clues from indirectly related industries.* Regardless of how different they are from one another, every industry

is somehow connected to others by way of vendor-relationships, business-to-business customers, etc. For example, when Americans started purchasing multiple pairs of sneakers, to fit their changing needs, Thorlo sock manufacturer noticed and took action. The company figured that if customers needed different sneakers they also probably needed different socks. A keen awareness on Thorlo's part, but not necessarily obvious to any other sock manufacturer. This simple observation transformed Thorlo from a commodity business into one of the most successful companies in the industry, a story repeated in every industry where one company separates itself from its competitors.

- *Discoveries from industries that have customers or distribution channels or structure in common.* Like the previous example, these industries may be completely different in nature, but operate with a great deal in common. For instance, variable pricing has long been used in the airline industry and on Broadway; the closer to the date of use the tickets are purchased, or the more popular the event, the higher the price. Baseball is just beginning to adopt this pricing strategy. In short, tickets for the same seats at the same stadium will vary depending upon who is in town.
- *Market reality.* Companies regularly view the market differently from reality. Second-tier companies overestimate the size and strength of their largest competitors, and the market leaders often underestimate the capabilities of smaller firms. Companies are constantly surprised by unknown customers, alternative uses and substitute competitors. The fact is, this basic industry knowledge needs to be updated frequently – at least twice a year, to avoid blind spots, make better decisions and maintain a competitive advantage.

Techniques to identify the early warning signs of market changes

In the past, companies could forecast their business with statistical models, which are most accurate in a relatively stable environment. Today business operates in a constantly changing, volatile business environment, which cannot be predicted. Accordingly, new techniques are required to identify market changes, to keep up with customers' changing demands and to stay ahead of the competition.

One of the best and easiest techniques is to pay particular attention to business matters that are surprising, unusual, challenge assumptions or bring on discomfort, because these are the early warning signs of change. A second technique is to notice successes from companies in other industries. It offers an opportunity to see how their methods for success apply to

other industries and how they can be adapted accordingly. Consider American Airlines frequent flyer (loyalty) program, created over 20 years ago. Not only has every major airline, hotel and car rental agency adopted this idea, but so have dozens of other industries.

Bundling is an example of a successful technique for leveraging your existing products or services. It involves taking several related products and grouping them together for reselling. McDonald's Happy Meal includes several items that could be bought separately, but together they are less expensive. Microsoft bundles together six software programs, which increases revenues of the programs with low revenue, and shuts out the competition for selected, included programs.

A third technique is to find out what customers are doing with your product or service that is unknown to you. Ask customers for the most unusual use of your product or service. Almost every industry has some customers who use their product or service in a way that was not part of the original intent. These alternative uses may suggest an additional niche market, by leveraging existing manufacturing or distribution or sales capabilities.

Find out today what competitors will learn tomorrow

Today's changes are tomorrow's headlines. Business intelligence identifies these changes and enables a company to incorporate them into its strategy and decisions or to monitor them until sufficiently comfortable. Awareness of changes in the early stages enables a company to make small changes, which are far easier to implement and to gain support for internally.

BI, with its focus on the future, identifies changing customer needs. New competitors enter every industry daily. They gain sales or snatch customers by offering something the competition does not. What the new firm is offering is a service or product that satisfies clients' needs. After all, why would customers of Company A do business with a competitor they never heard of unless the new company is meeting needs to which Company A didn't provide the solution. Existing, established firms "give away" customers or prospects to new firms simply by not keeping up with changing needs and demands. For example, think about The Virgin Group, a conglomerate of more than 200 different industries. The Virgin executives didn't have experience in these industries, but they recognized the opportunity to provide products or services to customers who were not being well served.

Today, business is no longer conducted in a vacuum – sheltered by the walls of its industry. The ability to succeed also includes numerous factors outside the industry. In a constantly changing, volatile and unpredictable business environment, the most successful companies recognize that knowledge is the key to succeeding. Decisions and strategy based on current,

Table I

Type of competitor	Companies	Offerings/differentiators
Direct (companies with similar product or service, selling to the same or similar customers)		
Indirect (companies in related businesses or with related capabilities)		
Substitute (companies selling replacement products/services)		

targeted, objective information and intelligence minimize risk and surprises.

The market is changing and so must a company's information and perspective. Business intelligence provides a reality check that often challenges industry assumptions that are no longer true, while offering more accurate insight. As Henry Ford said, "It's what you learn after you think you know everything that really matters."

Questions to ask: capturing critical information for making the best strategic decisions

- 1 How often do you question if your information is valid, current and/or comprehensive?
- 2 How much of a future-focus does the company incorporate in decisions?
- 3 How adept is the corporate scorecard for recognizing the early warning signs of change?
- 5 How often is the company surprised by competitors introducing a new product, or a new feature that you didn't even know was desirable?
- 6 How often does the company explore other uses of your product/service?
- 7 When was the last time the company identified other users of your product/service (customers who don't fit the target profile)?

- 8 What awareness does the company have of alternative distribution channels that are both available and desired by your customer?
- 9 How well do you keep up with industry happenings? (Read publications, attend conferences, actively listen to others)
- 10 How open is the company to bad news and/or negative comments?

The competitive landscape

- The most useful reason to monitor competitors is to learn what they have discovered:
- Which tactics do direct competitors use successfully? (Check all that apply.)
 - offer features or services different from other companies;
 - use an unconventional marketing approach;
 - sell or distribute through a non-traditional channel;
 - target an atypical customer
- If one or more of the above is checked, what was learned from competitors' actions? Then, make a list of direct, indirect and substitute and potentially unknown/recognized competitors (see Table I). Decide why customers are buying from them. (Note: price is rarely the primary reason.) Be very specific in identifying competitor offerings that appeal to customers and why. Add as many lines as necessary. ■