COMPETITIVE INTELLIGENCE ADVANTAGE

How to Minimize Risk, Avoid Surprises, and Grow Your Business in a Changing World

Seena Sharp

WILEY

John Wiley & Sons, Inc.

Praise for *Competitive Intelligence Advantage*

"Seena Sharp has done it again! This incisive, compact book clears through the clutter that encumbers so many others in the field of competitive intelligence. Seena's no-holds-barred style rings true as she pierces several myths surrounding vaunted business decision making and the holy grail of 'crunching' business data.

"Every executive and aspiring 'high-potential manager' should take to heart Seena's keenly articulated assessment of the many flaws that inhibit truly valuable decision making. Great decisions are a product of insight, experience, and intelligence, which constitute the very heart of the critical thinking skills so eagerly sought by companies.

"Seena correctly underscores how the lack of the latter—solid intelligence input—can handicap a company's thinking processes and help to torpedo strategies. Why is this? As Seena points out, mastering intelligence takes real thinking discipline—the heavy lifting of business analysis. As this book argues cogently, today's shareholders deserve business executives who are willing to get this fundamental skill set under their belts.

"The world is getting more and more complicated, and so is business. Intelligence, as Seena points out, is an avenue to success."

—Paul Kinsinger, Professor of Business Intelligence,
Thunderbird School of Global Management,
and Managing Consultant of the Thunderbird
Learning Consultant Network

"Seena Sharp's new book presents a compelling case for the importance of competitive intelligence to decision making. In today's world, where business as usual is no longer the case, executives and line managers alike frequently find themselves without a compass when facing the inherent risk in decisions, whether large or small. Seena Sharp, long an intellectual force in the field of competitive intelligence, provides provocative examples of why both CI and her book are 'must-haves' for all organizational executives that seek advantage and success. And what executive doesn't?"

—Cyndi Allgaier, Former President of SCIP
(Society of Competitive Intelligence Professionals)

"Without a doubt *Competitive Intelligence Advantage* provides a clear, comprehensive approach to competitive intelligence for the business executive of today. A delightful read, it demystifies the terminology around CI and clearly educates business readers about this invaluable modern management discipline. As a business consultant, educator, and corporate strategy advisor, I would encourage every one of my clients and colleagues to read this book."

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"Seena Sharp presents a 'state-of-the-art' approach to competitive intelligence that is meaningful and actionable to organization executives and managers. It addresses the *why*, the *when*, and the *value* of CI to the company decision-makers from the standpoint of insight, implications, relevancy to organization goals and objectives, early warning triggers, the customer perspective, and the marketplace."

—Bob Margulies, Former President of SCIP

"Savvy business owners and managers must read Seena Sharp's insightful book before making another big decision. The top expert in this field has written a compelling and extremely readable book. Sharp shares a wealth of strategies and practical tips for staying way ahead of your competition."

—Jane Applegate, columnist and author,
201 Great Ideas for Your Small Business

"Seena Sharp has always provided her clients and fellow professionals a fresh and insightful perspective on the work and subjects she addresses. This book fulfills those expectations, especially with regard to the business men and women who might not know what competitive intelligence is, or why they need it in today's information-overloaded, global marketplace."

—Jan P. Herring, Advisor to Intelligence Professionals, Meritorious Award Recipient, SCIP

"After reading this book, you will see your business differently because you will see the world differently . . . a set of new opportunities to exploit."

—Steve Moya, Consultant and former Senior Vice President and Chief Marketing Officer, Humana, Inc.

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Competitive Intelligence

What You Don't Know Will *Hurt You*

Are we serious when we ask, "Is there a difference between competit*ive* and competit*or*?"

For most businesspeople, these terms are one and the same. *They are not*, and those who understand the difference will always have a significant advantage. It's similar to believing that selling and marketing are identical disciplines. They are not. And when you don't understand the difference, you miss the value of both.

Competit*ive* intelligence and competit*or* intelligence are *not* synonymous, and knowing the difference between them is more than mere semantics. In fact, the distinction is so significant that it will have consequences for the prosperity of your company or product. If that sounds like hype, take the measure of your attitude after you finish reading the chapters on competitive and competitor intelligence (Chapters 3 and 4).

What *is* the difference between these two? *Competitor* intelligence has a narrow focus that excludes critical information; *competitive* intelligence takes a broader, more objective and more accurate view of what business faces and what can derail or challenge your company.

The puzzle shown in Figure 3.1 graphically and deliberately demonstrates that competitor intelligence is merely one element in the business environment. Competitive intelligence is more expansive in that it considers *all the elements that impact the company's success*—customers, suppliers, distributors, substitutes, regulations, technology, the economy, other industries, demographics, culture/societal issues—and competitors. Ignore these other elements and you're setting yourself up to be blindsided.

Competitive Intelligence: The Larger View

The two examples that follow should shift your thinking about the value of the entire business environment beyond the notion of competitors and turn you into an ardent believer in the value of competitive intelligence.

Imagine that you are buying a home or renting an apartment. If you were doing the equivalent of *competitor* intelligence, you would compare house A to house B to house C and so on. You would evaluate the number of bedrooms and bathrooms, the square footage, number

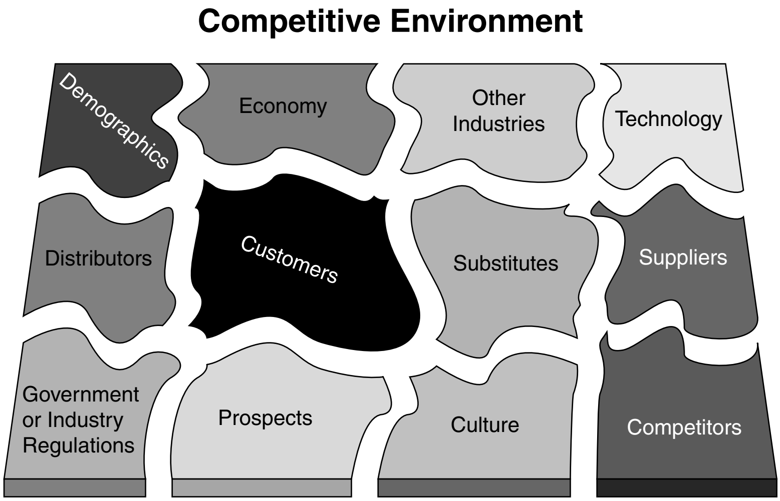

FIGURE 3.1 The Entire Competitive Environment

of floors, kitchen space and appliances, fireplaces, style of the house (traditional, Tudor, contemporary), size of property and amenities (pool, deck, grassy area), and so on.

Even a renter, however, looks at *far* more data points than these. They consider the neighborhood: What does it look like? How well is the area maintained? How noisy is the location? How far apart are the homes? They also consider the commute to work, quality of schools, presence of the venues for things they like to do or that they consider important such as movies, sports, restaurants, parks, gourmet supermarkets, and specialty shops.

The latter would comprise the *competitive landscape*, which includes those elements that are important in making this decision, even if you're planning a short-term stay. I doubt that you would choose a place to live based strictly on the number of rooms, without considering the other details.

This applies equally to business decisions. For example, one of my clients manufactured metal frames that supported handles of plastic bags used in the supermarket or drugstore. The company was performing well, and in looking to expand, the executives wrote a business plan and submitted it to the bank. The bank was sufficiently impressed and agreed to give them the loan, provided they would improve the market section. They asked us to provide sufficient market intelligence to satisfy the bank's demand to determine how viable the market was, going forward.

We first performed an industry assessment with the usual elements: market size (current and growth trends), distribution channels, competitors and comparable product information for each, and a summary on the industry and how it's changing. That was step one, and even that included far more than only addressing competitors.

Next we reviewed and analyzed all the *other* industries that could impact our client's success, which led us to look at five other industries, the entire business environment as it applied to this client:

1. *Supermarket business.* Since most of the frames were sold in supermarkets at that time, we focused here first. We compared the number of plastic and paper bags that supermarkets purchase, as well as the costs of storing and shipping for plastic versus paper. The differences in weight, storage space, and costs for each type were quite significant.
2. *Packaging industry.* There was a time when the only option was paper bags. Then plastic bags began to replace them. Now there are paper bags with handles and customers using their own bags. Is there another option on the horizon?
3. *Plastics industry.* Plastic is the raw material of these bags, so they needed to understand what is happening in this industry regarding price or availability. Are any manufacturers switching to plastic frames?
4. *Petroleum industry.* Plastic is made from petroleum, and petroleum prices have been extremely volatile over the years. This will impact the price and availability of plastic bags, so this industry was relevant and deserved inclusion.
5. *Environment.* Consumers continue to be concerned about the biodegradability of products made from plastic. Although this concern has ebbed and gained momentum over the years, it had to be factored into the outlook. There are biodegradable bags made from corn that look like plastic, but since the customer doesn't know which ones are "green," environmental concerns continue.

After evaluating all these additional industries, our client had a comprehensive and realistic overview of the *entire* competitive environment, a conclusion that gave the bank the confidence to approve the loan.

The bonus was that the company also used this information for strategic and marketing purposes. Further, because of the thorough intelligence they now had, they gained even more confidence about expanding, moving faster and more aggressively, thereby increasing sales sooner and at a greater pace than previously.

If we had only looked at competitors, would that have been sufficient? We are certain it would not, and the client and bank obviously agreed that a broader, macroview was more advantageous. Excluding any one of these industries could have posed a serious challenge to a realistic understanding of what the company might face. After all, the purpose of competitive intelligence is to support the development of more resilient, more robust strategies and tactics and to minimize risk. A narrower focus will not help achieve that purpose.

External Perspective

As noted elsewhere, I attended a conference in Europe where Shell's vice president of Global Business Environment informed the attendees, "The big decisions that failed at Shell didn't fail because of our operations or because of project management. They failed because we misunderstood the external world." When a company focuses on the entire competitive landscape, it includes the changing marketplace, which every business *must* do. The marketplace is not merely about the actions of competitors. Rather, it is about client demands.

McDonald's is famous for constantly re-examining the market and exploring its customer's preferences. The company regularly changes its offerings and experiments with new products—breakfast foods, chicken products, salads, and now high-quality coffee. It's ironic that McDonald's is frequently mocked for its latest product du jour, because that is exactly what we in marketing applaud—test, test, test. It's the only way to know what customers will buy versus what they say they want.

How did McDonald's make the seemingly absurd decision to compete against coffee giant Starbucks? The fast-food chain noticed that customers were buying their food at McDonald's, then going to convenience stores for water and other bottled drinks, and then to Starbucks for coffee. McDonald's started adding these beverages because its customers wanted them, and they could now find them all in one place. The company was responding to its customers. It was not going after Starbucks. Neither Starbucks nor McDonald's ever thought the other was in its circle of competitors. That's how business is changing today; and that's what competitive intelligence reveals. To put the competitive-versus-competitor discussion into perspective, a competitor analysis of Starbucks would not have included McDonald's, nor vice versa.

This need for a broader approach and external view was made patently plain to our major credit card company client (an example we use in other parts of this book), which made a decision to enter the campus card market. This company believed that its competition consisted of other credit card issuers, companies in the same category. The reality of the marketplace painted a much different picture. The big surprise was that several other industries were also competing in that market space; in addition, there were threats from alliances among these different industries and from systems integrators. For this client, competitors included industries it had never considered—banks, telecom, hardware and software providers, and a university that had been successful in this market and in mentoring newcomers.

At first blush, our client could easily compete in this market segment, provided that its competitors were *only* other credit card providers or financial services providers. Our client had the advantage of being one of the largest and most highly respected members in its field. When it decided to enter this new market, however, it hadn't considered that the playing field included a completely different set of competitors, which meant that our client had no idea of the unexpected risk.

Our competitive intelligence investigation detailed the other forces that were at play, which the credit card company hadn't spotted on its radar and hadn't factored into their marketing equation. The complexities of dealing with the university system are very different, and not in a good way, from other business customers, and they are likely to create additional demands and barriers. Further, our client didn't realize that it would be serving *two* customer segments within the university: the administrators and the students. We detailed what each expected from this campus card and explained why the two groups' priorities were totally opposite.

The issue of different priorities can be dealt with if you're aware of them and accept this unexpected challenge. The company ultimately pulled out of that arena after unsuccessfully spending tens of millions of dollars. Its focus on competitors had been too narrow, and it hadn't understood the marketplace. As a large firm, it had the cushion to absorb such a colossal failure. But could your company do the same?

There is a belief that the most successful companies know their market. But *do* they? The firms that understand the difference between the competitor and competitive landscapes and that monitor the latter are the most likely to succeed. The best competitive advantage and least risky strategy is to know your industry broadly, narrowly, and deeply and to be aware of all the external forces that affect your ability to succeed. Even if you believe that your competitors are the most important focus, that doesn't make it so. In extremely competitive times and declining economic periods, reducing risk is even more critical.

By limiting your efforts to that single element—competitors—you are similarly limiting understanding of your market. After all, "To be master of any branch of knowledge, you must master those which lie next to it. And, to know anything, you must know all." (Oliver Wendell Holmes)

Start with the Customer, Not the Competitors

Although it seems perfectly clear, the following is a truism worth repeating, especially since so many companies put more time and effort into monitoring their competitors than their customers. Management guru Peter Drucker said, "The purpose of business is to create and keep a customer." Obvious, right? Companies that provide prospects with what they want are rewarded with sales, customers, and market share. Simple!

Why is this so difficult for so many companies to understand?

It's hard to give your customers what they want (whether or not they know what that is or can verbalize it) without having an objective, external, broad understanding of what is happening in the entire marketplace and not just in your industry. The key to discovering that landscape lies in having the right knowledge, insight, and understanding, and that means getting the right intelligence, supplemented with observations, broad reading, and traditional market research.

In their book, *The New Age of Innovation: Driving Co-Created Value Through Global Networks*, renowned strategist C. K. Prahalad and coauthor M. S. Krishnan emphasize the importance of building customer relationships. This, they say, requires doing due diligence to understand customer needs. It's not technology; it's not software; it's taking the time and effort to find out how customers are changing and how you can serve them better and sooner than your competitors.

"Consumers are more knowledgeable and more powerful than competitors," says Bruce Nussbaum in *BusinessWeek*'s "Innovation Predictions 2008." In one of these predictions ("The Customer Is King"), he explained that "Consumers replace competitors as the key reference point for corporate strategy." And, as pointed out in Trendwatching.com, "Consumer expectations are often set outside your own industry. Limiting yourself to your own industry will make you miss important changes in consumer expectations, and will thus put you at risk of disappointing or even annoying consumers."

Some B2B (business-to-business) companies have begun eliminating the intermediary (distributor) and going directly to the consumer. Pharmaceutical companies are the most blatant and successful in terms of marketing directly to the consumer (D2C), even though their prescription drugs can be obtained only via doctors (B2B). Direct-to-consumer has changed the distribution channel for marketing these companies' products. In 1995, five percent of marketing budgets for pharmaceuticals were D2C. Just 10 years later, that percentage had increased to 30 percent.

Companies in other industries have and are marketing their B2B products directly to consumers, even though the consumer can't buy the product directly. Examples include Intel, Dolby, and NutraSweet—companies whose products are embedded *in* the products that consumers buy and that the customer asks for by name. Small-scale organic farmers and food manufacturers are selling directly to the consumer, online, at farmers' markets, or at community-supported farms or food clubs (in which produce is trucked to a distribution center where the customer picks up their order).

Wal-Mart is one of the most successful retailers of the twentieth (and, so far, of the twenty-first) century. Sam Walton built his company by focusing on small communities that were underserved and overcharged. He recognized that delivering what the customer wants was one of the keys to success. Walton reportedly said, "You guys [manufacturers] are always trying to sell me more Tide. I really don't care if I sell Tide or Fab. I just want to sell what the consumer wants." The focus has to be on the consumer, who can fire his or her provider, at will.

The Customer Is King

The customer is the single most important aspect of a company's marketing strategy, as noted in a spate of books on the subject of consumer-driven marketing, including *The Game-Changer: How You Can Drive Revenue and Profit Growth with Innovation*, by A. G. Lafley and Ram Charan. Lafley, who became CEO of Procter & Gamble in 2000, has often acknowledged that "the customer is boss." Under his successful leadership, P&G "made a seminal change in the psyche and working of the organization, changing from a technology-push innovation model to a customer-pull one."

According to the authors, placing the consumer at the center "delivers sustained organic growth and profits, no matter whether your business is consumer products, services, or business-to-business industrial products." Lafley continues, "The most important part of the system is the one in the middle: the consumer. . . . Everything begins and ends with the consumer. We have created new products that serve our consumers in new ways, such as Swiffer, Crest Whitestrips, and Tide Coldwater detergent."

Unlike the past, the customer is no longer passive. With so much information, including product and service reviews available online, the customer is almost as knowledgeable as the producer about the company's products and/or services. Most Gen Y, Gen X, and even baby boomers consult online reviews for everything from international travel to neighborhood restaurants to the latest products they want to buy to where to get good (or bad) customer service and better pricing.

In this new century, the customer is king, and that fact trumps anything a company can say about itself. This is primarily due to the considerable number of options customers have for your product or service (including substitutes), along with other customers' feedback, reviews, and videos that they can access via the Web. Customers are no longer willing to wait for you to improve your offering or to change your pricing. You have to earn their interest and their votes (i.e. dollars), which are often lost faster than they are gained.

This is no longer about customer loyalty to a company. Patrons are loyal to those products that satisfy their needs, not to the manufacturer's opinion of their customers' needs. There wouldn't be such a large disconnect between auto manufacturers and consumers if the industry truly focused on the automobile buyer. Yet decade after decade, American automakers proclaimed that they knew what their customers wanted. And all the while, market share kept shrinking.

As its clientele changes, a company has to be equally nimble in its mind-set to acknowledge reality and in the way it responds to these changes. This is how you show the customer that you understand the conversation. Certain select retailers, who are thinking externally and are aware of more than changing fashions, have incorporated restaurants into their stores to increase the time spent there.

1. Ralph Lauren's RL restaurant in Chicago has increased sales from $1.4 million to $7 million in just six years, thereby taking revenues from restaurants nearby on tony Michigan Avenue.
2. IKEA has restaurants in all 34 of its U.S. stores; Bloomingdale's, Nordstrom, Bass Pro Shops, and Tommy Bahama sportswear stores also include restaurants.
3. Borders and other booksellers have added coffee bars to keep customers just a little longer.

What about the Competitor?

Obviously, we cannot ignore the competitor. We agree that there is value in doing competitor intelligence, a subject we detail separately in Chapter 4. There absolutely is a place for competitor intelligence when used appropriately. However, the balance between competitive and competitor intelligence generally should be weighted overwhelmingly in favor of the former.

A focus on competitors is shortsighted, because competitors don't buy your products—customers do. While this may appear to be obvious, if companies understood this, they would focus more on customers. Customers not only buy your product or service, they provide the most useful information if you listen. They will tell you and they want to tell you how to serve them better. They offer ideas for new products, features, or improvements; they tell you about problems with the existing offering; and they suggest alternative uses. A decision to focus more on customers than on competitors will yield far greater benefits to the company.

Why do so many companies focus most of their attention on their competitors? They think they will take away a competitor's customers and gain revenue. This approach might make sense if business were a zero-sum endeavor, where in order for one company to gain customers, another company had to lose them. The more likely scenario is that a new entrant will expand the industry—*if* it offers what customers want.

For example, the $7.9 billion salty snack-food industry grew almost 3 percent in 2007, selling familiar products such as Frito-Lay. Robert's American Gourmet, an all-natural snack made with real food (i.e., cheddar cheese), grew 20 percent, the same growth rate as sales for the entire category of all-natural snacks. All-natural snacks, a small sub-segment of the industry, appeals to a growing customer segment that wants healthier snacks made with natural ingredients and no trans fats. Robert's successfully *expanded* the snack category. It created a profitable company by not following competitors and by providing customers with a product that existing manufacturers were not providing. Producing products or services that customers want enlarges the market. This is proven by the fact that purchasers will spend their money on some other product or service that better satisfies their needs, regardless of whether your company agrees, according to Brandweek.com

Cirque du Soleil expanded the market for circus-like entertainment by offering a show that didn't appeal to the Ringling Bros. and Barnum & Bailey Circus crowd. Curves Women's Only Health Clubs attracted customers that wanted a different workout experience.

And whatever you believe is the reality, dismiss outright the idea that your company or your product does not have *any* competition. We hear this constantly from both large and small companies, and it is simply not the case. We have yet to find an industry in which competitors do not exist. The reality is that there is *always* competition. It's either unknown, or customers are using an alternative product or service, or waiting for a better offering. If there really is no competition, then you have to investigate if anyone other than you is interested. It matters little how important or good your product or service is if your target market is not curious or attracted.

The Supplier Aspect

An example earlier in this chapter detailed a market analysis of the supporting frames for plastic bags for a growing company. While we looked at the usual forces operating in the marketplace, including competitors, competitive products, substitutes (paper bags), and legal and environmental issues, we also considered the impact of plastic and petroleum industries as the major suppliers to the plastic bag manufacturers.

These suppliers have a stake in plastic bags, and they have a broader view of the market for their products in general. Paying attention to what is happening to them and to their industry provides a better picture of how your raw materials may be impacted and whether others are starting to encroach on your playing field. Your suppliers have an interest in the direction of your industry, and that makes them a good source of information for any trends or threats. Suppliers include raw materials and packaging.

Distributors

Aside from learning the obvious—the preferred channels and why they're preferred—distributor analysis can show you how the buyers are reached and from whom they buy (i.e., direct sales people, distributors, value added resellers, etc.). If you're considering entering a new industry or market, you will learn how open distributors are to a new vendor, how they operate, and what the business drivers are. Understanding how this part of the food chain operates gives you the background necessary to establish your own distribution channel strategy. But . . . there is more.

Distributors offer much more than a channel. For many industries, distributors *are* the buyers; they are the portal to other customers. They know what works in the marketplace and can identify the barriers to market entry. They know what the competitive strategies are, and they have an even better understanding of the customers' wants and needs, as we have found in so many of the projects we have undertaken for our clients.

Why do they share this information? Because they are ever hopeful that someone, some company out there, will be a valuable new addition to their stable. They don't want to miss out on what might be the next hot company.

Even more significant, distributors can help you assess, almost better than anyone else, the marketplace. They do so by aiding in SWOT analysis: the *strengths* and *weaknesses* of the company (internal perspective) and the *opportunities* and *threats* in the marketplace (external perspective). This information will allow you to adjust your marketing and sales strategies to become even more successful, or to completely transform your market offering from failure to success. (Note: SWOT is not exclusive to input from distributors.)

For example, a nonprofit organization with whom we worked had created a videotape targeted toward preventing drug use among tweens (i.e., preteens). The organization, pleased with its idea to market this through a particular distribution channel that no competitors were using, was certain this was a fabulous new discovery—its *aha!* moment. A few key members raised concerns about why no one else had discovered this gem. Our research showed that others had considered it and had tried it, only to find that it didn't and wouldn't work. This was information that had not been factored into their "discovery." The nonprofit executives got their *aha!* moment. It was not the one they wanted, but the one they needed.

The Competitor Landscape: Direct, Indirect, and Substitute Competitors

As Figure 3.2 illustrates, competitors are no longer defined merely as *direct* competitors, as discussed in detail in Chapter 4. Competitors are *any* business that attracts your customers or potential customers. Consider the challengers shown in Table 3.1 and how they relate to your business.

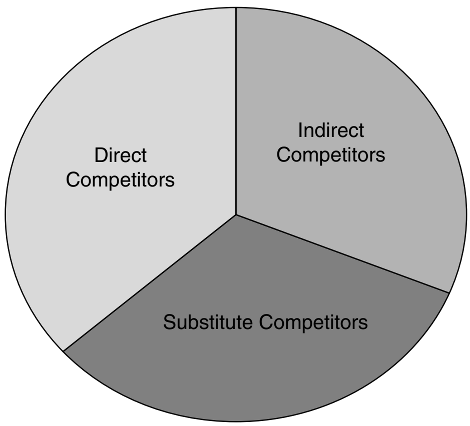

FIGURE 3.2 **Types of Competitors**

Table 3.1
Types of Competitors

Type of Competitors	**Description**
Direct	Companies offering the same or similar products or services to the same or similar customers
Indirect	Companies in *related* industries or with related capabilities (primary or secondary) who are selling the same or similar products and services
Substitute	Companies in *different* industries offering the same or similar products and services

Substitutes

Management easily and constantly dismisses substitutes. After all, they think they're the experts; their product or service is authentic; it's the real thing. Why would anyone buy a substitute?

But customers do, and so it's important that you understand who and what they are and why they matter.

Substitutes are any offering that your customers or users view as alternatives for your product or service. Granted, the substitute may not be perfect and it may not rival or even come close to the quality of your offering. But to the customer, the substitute has enough of the characteristics and utilities in common with your offering to warrant purchasing and using that product or service instead of yours.

The more important point to realize is that every substitute purchased is a sale that your company *did not get*. It broadcasts that the differentiators or advantages of your product or service were not conveyed or were not sufficient.

Southwest Airlines built its company by understanding that it was not competing against other airlines, but competing instead against cars and buses—hence the short hauls and cheap seats. Although Southwest's direct competitors today may well be other airlines, in the early days its quick flights substituted for long car and bus rides. Unlike traditional airlines, Southwest did not offer assigned seating, and the company made it easy for customers to return unused tickets.

Michael Porter, Harvard Business School professor and the leading authority on competitive strategy, wrote that "All firms in an industry are competing, in a broad sense, with industries producing substitute products. . . . Identifying substitute products is a matter of searching for other products that can perform the same function as the product of the industry" ("How Competitive Forces Shape Strategy," *Harvard Business Review*).

MinuteClinics are substitutes for doctors' offices, and usually located in retail spaces, such as Target or large drug store chains. They offer inexpensive, quick attention to common ailments such as strep throat, ear infections, and immunizations. When they first opened in 2000, these "ATMs of health care" were ridiculed and dismissed as inferior to traditional clinics and doctors' offices. In early 2009, the prestigious Cleveland Clinic entered into a collaboration agreement with MinuteClinic, which now has more than 500 U.S. locations. Other industries and substitutes that were once dismissed include plastic used in place of steel, fax copies of legal documents in place of originals delivered by FedEx, fine jewelry sold on QVC or HSN rather than in jewelry stores, and cable stations in place of broadcast TV.

When it comes to the use of substitute products, it matters little what *you* think. It only matters what the customer thinks. Therefore, when you study the competitive landscape, it is a good idea to find out if there is a substitute product or service that will impact your strategy. Then figure out why it appeals to customers who could/should be yours but are spending their dollars elsewhere. This is the real value, determining their attraction, and weighing the option of adapting the substitute idea to your business.

Technology

Technology often introduces new and sometimes unexpected competitors. The advent of the Internet, for example, actually opened the marketplace for a California-based T-shirt designer, who suddenly was able to provide his design services to a pub in Amsterdam. That same technology allows me to order my "just desserts" from my favorite chocolatier in Bruges, Belgium. Suddenly, my local Godiva shop has lost my business.

Technology allowed FedEx to "steal" the package business from the U.S. Postal Service. MapQuest, Google maps, and other online mapping firms have done away with most paper maps that used to be available from your local garage or gas station as a source of additional revenue; and the nearly ubiquitous GPS that is becoming available on many telephones may do away with even that source. Then there are the electronic books available through Amazon's Kindle and Sony's digital e-reader. Will the book publishing business as we know it survive in the era of downloads?

Unquestionably, technology is having quite an impact, and it makes the competitive landscape much more uncertain. When looking at the broader competitive landscape, it is increasingly difficult to ignore the new technological trends that may impact your product, service, or industry, either directly or indirectly.

Demographics

There is little question that changing demographics can and will affect your business. On one hand, for example, an aging population will impact health care, housing and housing construction, and many areas of the retail sector. In fact, a friend joked about a department store chain that went out of business in Southern California because its last customer had died. (Its merchandise mix did not seem to have changed much from the time it started back in 1904.) On the other hand, population growth (from both migration and increasing fertility rates) is equally likely to affect your market. And these are not the only demographic factors.

What's important here is to constantly monitor your market. Both market research and competitive intelligence will uncover the appropriate details. Who's buying? What are their attitudes? What drives them? What are the complaints and frustrations? Are they changing? If so, how? And can *you* change to meet their needs and wants?

Appliance manufacturers are finally retooling their goods for an aging population by offering easier-to-open refrigerator and oven doors, raising the height of washer and dryers so bending is not required, adding automatic shutoff burners, and implementing brighter LED lighting. More and more bathrooms are adding grab bars and installing easier-to-handle faucet levers. OXO small hand tools (e.g., can openers, garlic presses) grew to become a very successful company by offering commonly used products housed in great design. The company attracted much younger buyers who were not part of its target market. These appliance improvements may have a similar story, as design is increasingly recognized as a desirable feature.

Women and those over 55 years of age are often invisible to marketers, even though women account for approximately 80 percent of the gross domestic product (GDP). Until the recession, those over 55 were the group with the most disposable income and the least financial obligations (no children, house paid off, etc.). Does your company have a plan to attract these moneyed consumers?

We conducted two investigations of Gen Y, which clearly delineated the significant impact of this age group, now and in the future. They are almost as large as the boomer population and as different in their attitudes and behavior as boomers were when compared with their previous generations. They are expected to impact the market in the same unpredictable way. How much do you know about them?

Demographics are part of the competitive environment. Include these if you want to avoid suffering the same fate as that department store that is missed only by its customers who are now shopping on another plane.

Culture

I use this term to refer to a wide range of macrosegments, including society, lifestyles, and attitudes—broad areas that are constantly changing. Issues that appear to dominate the news change regularly, from rampant conservatism to uncontrollable spending to fear of germs. Cultural analysis provides an opportunity to determine whether your products or services match up with current prominent concerns and, if so, to reconfigure your marketing and advertising to fit with these shifts, if it makes sense for your company.

The Color Marketing Group and the Color Association of the United States are the primary groups that determine colors for the next year or two. While this may appear frivolous, their pronouncements are critical for their members, which include auto manufacturers, home decor firms, branding and logo consultants, and fashion designers, all of whom want to get their production schedules in sync with consumer tastes. Color differences may be too subtle for most to recognize, but they reflect the times and impact purchasing behavior.

In fact, Google's multicolor design has been so significant that there's actually a name for it: the Google effect, which includes not only the group of colors that the company uses, but also its flexibility to tweak its logo for various holidays. Look at Kraft Foods, Wal-Mart, and Stop & Shop logos for the Google influence.

Social trends affect a lot more than color. They can help your sales by determining what colors will resonate with customers based on societal and economic changes, from the color of your product to the color of the walls of your store or restaurant. Social trends affect your product or service every bit as much as all the other elements that impact your business. Even if it's not important to you, it doesn't mean it isn't important.

We want and buy products and services that were unthinkable just a few years ago. What would have seemed ludicrous in 2000 now is viewed by some customers as welcome. Have you heard about "death midwives"? There are increasing options for burial, even among traditional choices, such as ecological burials, motorcycle hearses, and artistically customized urns. And many people welcome assistance with all the paperwork, especially those who may not have family nearby to help.

Similar to this is the entrance of retirement coaches, the latest in the growing coaching industry. People are living longer, and many don't know what they want to do. For those who seek assistance, retirement coaches help explore areas previously unconsidered, set goals, and create second careers (if desired) that fit flexible schedules and new interests. Additionally, an estimated 20 million drivers over 70 years of age are just not giving up their keys. There is a small but growing niche for driving coaches that cater to this specific demographic, which is expected to reach 30 million by 2020.

Economy

During a previous recession, an ad agency client commissioned us to find out how consumers behave in a down economy. The agency's idea was to give its clients a heads-up about what changes are likely to take place when the economy spins in a downward spiral. As a result, the agency's clients adjusted their marketing and promotional materials, maintained sales while competitors' sales were declining, and were in a strong position when the recession ended, due to their constant communications strategy. The bonus was that the advertising agency was rewarded with more business due to their clients' new marketing campaigns.

In the recent economic downturn, consumer spending was clearly in retreat, driving the economy down even further. But even in a bad economy—in the midst of a housing crisis, a credit crisis, an auto industry crisis, a crisis of confidence in the ability of government to fix the problems quickly, and one in which jobs are being lost at an unprecedented rate—people are still eating and buying. Yes, they are adjusting their budgets and rethinking their spending habits, but they still have to spend, because we no longer till our own lands for food, sew our own clothes, or do all those other things needed to create what we now purchase.

In down times, there is an increased consumer focus on ways to *save* money. Many people respond in anticipated ways, by clipping more coupons, transitioning to less expensive brands or products, buying more promotional goods, and limiting purchases to what they need now. Others take more drastic action, such as growing their own food in today's "victory gardens" to cut expenses as well as to eat local—very local.

Smart companies who spend the time to understand changing times figure out what customers are doing and then adjust their products or services to serve that changed marketplace for the current economic climate. The Hyundai car company did just that and enjoyed increased car sales when the rest of the industry was in free fall. With auto sales and jobs declining rapidly, the company developed a strategy and advertising campaign offering its cars with a guarantee: Lose your job, and we help with car payments, or return the car with no adverse impact on your credit rating. Hyundai's plan reduced the customer's risk, just as competitive intelligence reduces your risk.

Industry and Government Regulations

Regulatory policy in many countries increasingly shapes the structure and conduct of industries. This is happening in banking, pharmaceuticals, transportation, and many other businesses. Unquestionably, regulation (by government or industry) is the single biggest uncertainty that can affect market decisions.

Legislation for higher-mileage vehicles means a big change in investment; legislation in the financial markets will contract or expand the availability of capital; legislation affects energy (electricity) pricing; regulatory requirements affect which drugs are introduced and how. Increasingly, legislation has a major impact on such things as plastic bags, lightbulbs, battery disposal, and many other areas. It has changed the paint industry and has created new opportunities for recycling companies. It regulates land use, work environments, minimum wages, and more. Companies that do not do their due diligence on pending or likely legislation that may impact their new products or services or that choose to ignore those regulations, may well find themselves in trouble, if not out of business.

Other Industries

All businesses are impacted to some degree by neighbor industries that are indirectly related to their own. The example about metal frames for plastic bags discussed earlier in this chapter clearly identified the value of being aware of other industries that are indirectly related to yours and could impact your business. Those other industries included the supermarket industry, plastic industry, packaging industry, petroleum industry, and environmental concerns.

Thorlo socks became very successful by offering different socks for different sports or needs (more padding in the toe or heel). This all came about because the sneaker market was diversifying into different models for different sports. If people were buying shoes constructed differently by type of activity, then perhaps this would translate into socks also. It may be hard to remember, but at that time, companies offered one basic sock model. Thorlo paid attention to an indirect market, sneakers and athletic shoes, that was successful in understanding customer needs, and used this to its advantage and subsequent success. Offering socks, customized to match the sneaker, may appear obvious, but no other company thought of it. Thorlo came to this recognition by following a related industry.

Market Puzzle: The Last Word

Review the puzzle at the start of this chapter (Figure 3.1) and see if you have a different view of your industry, as well as opportunities and areas to monitor. Depending on the market, the customer, and the competitive landscape, the picture and the boundaries are always changing.

Some pieces may loom larger and some smaller. Next year your puzzle may show different large or small pieces. There may even be some new pieces added to the puzzle, while the old pieces may have morphed into something either similar or different.

The forces that impact your industry and your product or service include customers/buyers, competitors, suppliers, distributors, government or industry regulations, demographics, substitutes, technology, economy, trends, related industries, prospects, and more. An early clue to the growing importance of external forces is evident when changes in the overall competitive landscape emerge and, even more obviously, when they begin to gain traction. This may come in the form of new or different competitors, new ways of buying the product or service (distribution channels), new features, changes in sizing of the product or bundling/grouping (e.g., selling only multipacks).

You cannot know the whole truth if you cannot see the entire picture, and you cannot see the entire picture if you focus on only one or two elements.

Executives need to gain greater insight into the areas in which their level of awareness is not complete so that they can quickly respond to them. Competitive intelligence findings explicitly describe areas that haven't previously been known to the executive team. The next step is to develop a plan that includes all factors of the business. Know all the forces that affect your industry and customers; question whether they're still relevant; change what needs to be changed;

validate what you think is true; and learn what is no longer true and what's new.

Without an external view, you are relying on experience and assumptions that may or may not be correct and excluding input on what has changed. It's a good idea to remember *Sesame Street*'s popular song: "One of these things is not like the others . . . " Notice what isn't, and try to figure out why. This is how you become aware of the first stirrings of change. The idea is to keep up with your customers and markets, even as they shift.

This applies to all aspects of decision making, even the U.S. Supreme Court. This discussion between U.S. Supreme Court Justices Antonin Scalia and Stephen Breyer on the constitutional relevance of foreign court decisions reminds us of the widespread value of paying attention to external events, regardless of your business.

> ***Justice Scalia:*** *Why is it that foreign law would be relevant to what an American judge does when he interprets—interprets, not writes? The Founders used a lot of foreign law. If you read the Federalist Papers, it's full of discussions of the Swiss system, German system. It's full of that. It is very useful in devising a constitution.*
>
> ***Justice Stephen Breyer:*** *There are so many ways, so many ways, in which Justice Scalia and I absolutely agree, so many ways in which foreign law influences law in the United States Supreme Court and the other courts as well. We read what judges in other countries say on the issues we're considering because how do we know we looked for everything? I mean, what I see in doing this is what I call opening your eyes, opening your eyes to things that are going on elsewhere, use it for what it's worth.*
>
> *—Source: AU Washington College of Law, Jan. 13, 2005, American University Washington College of Law, U.S. Association of Constitutional Law Discussion*

That's not a bad concept to remember: Open your eyes to what else is happening. Look at the broad picture both inside and outside your industry. Success depends on monitoring *all* factors that have the potential to impact your business.