

WHY DO CI? BECAUSE IT MAKES ECONOMIC SENSE!

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This issue is focused on starting up a competitive intelligence (CI) unit. That is a subject about which I have said a lot (McGonagle & Vella, 2003; McGonagle et al., 2008). What I would rather talk about is why we should even be producing competitive intelligence.

In its early days, SCIP's members were concerned that competitive intelligence would be challenged as violating the antitrust laws. At an early SCIP annual meeting, an antitrust attorney and a member of the U.S. Department of Justice's antitrust team both told SCIP members that competitive intelligence practitioners do not have to be afraid of the antitrust laws.

Part of their underlying reasoning viewed competitive intelligence as not anti-competitive. Rather, it was pro-competitive because it helped assure that the market had full information on transactions and it enhanced the ability of American firms to compete in the world market (Smith, 1989; Herring, 1989).

COMPLETE AND ACCURATE INFORMATION

For those who recall their basic economics, the efficiency of markets is premised upon the existence of complete and accurate information held by all parties to the transaction. However, that is not the real world. If it were, almost by definition no business would need a competitive intelligence unit. Everyone would have a full, clear, complete, and accurate understanding of:

- where its competitors stood
- what they were doing

- what they were capable of doing
- what they probably would do in future

With such information, competitor responses would be based on reasoning rather than guessing, leading to what is called perfect competition.

Again, by definition, perfect competition leads to the most efficient allocation of resources in the market. For an example of what happens in the absence of adequate information, we have only to look at the recent collapse of part of our financial system. There, institutions and people were buying and selling instruments about which they knew little or nothing. Here the lack of information was not just damaging, it was catastrophic.

The work of a recent Nobel Prize winner, Professor Joseph Stiglitz, has come back into the public discourse. Not that Stiglitz needed any help, since according to one source he is the most cited economist in the world (Top 10%, 2008). His work illuminates a fundamental issue when dealing with the lack of perfect information: both sides to any transaction, as well as the marketplace itself, suffer when there is imperfect information (Rothschild & Stiglitz 1976; Rosser, forthcoming).

CUSTOMERS ALSO SUFFER

What does it mean for competitive intelligence? It means that when our clients or employers lack any of the additional intelligence that CI can provide, which brings them closer to having perfect information, not only do they suffer but their customers suffer, too.

Why do they suffer? What do they suffer?

Lacking the intelligence that the competitive intelligence process can bring to a company means that the company faces higher than necessary risks in making its decisions. In economic terms, it has a higher risk of failure, greater uncertainty, and/or paying a higher premium for things like money, through higher interest rates.

From a consumer's point of view, since the company cannot commit all available resources to carrying out a decision such as launching a new product, the company's actions may be more tentative. For evidence of that, witness the almost panic around the first introduction of the iPhone. While that may have been good business for Apple, it was bad business for the many customers who were turned away. From the market's point of view, it means fewer goods or services being brought into the marketplace. It also means goods and services are brought in with less support, such as investment, advertising and the like.

Can we measure these losses? No, but we can see that they are there, and it is for bringing that to our attention that Stiglitz properly won a Nobel Prize in economics in 2001.

MAKING THE BUSINESS MORE EFFICIENT

So the case to be made for starting a competitive intelligence unit is not that it will directly and observably go to the bottom line, although that can be demonstrated if approached properly (see McGonagle & Vella, 2002). *Rather, it is that using CI must necessarily make the business more efficient.*

We do not try to measure the efficiency impact of a single input in other contexts. For example, when we are operated on by a surgeon, we know that his or her education, plus training, plus experience, plus continuing education, plus physical condition, etc. all contribute to improving the likelihood that the operation is a success, and that we survive and thrive. We know that all of this should be a part of the surgeon's background and realize that missing one or more will adversely impact patient outcomes over time. However, we cannot predict which patient outcomes will be adversely impacted. Nor can we say that omitting continue education will increase the failure rate of a particular procedure from, for example, 5% to 6.5%. We understand it will increase, but we cannot always quantify by how much.

Competitive intelligence must make its case, but not based on some Holy Grail quest to measure the precise impact on each and every product project or a precise impact on the bottom line. Rather CI makes its case through educating management that competitive intelligence minimizes risk, improves the likelihood of beneficial outcomes, and produces additional improvements. So long as management uses the output of CI over time, CI will always improve the outcomes of decisions over actions taken without it.

This is not the same as saying that using CI guarantees success. Anyone

who says that using competitive intelligence guarantees success is either a fool or a liar. Good competitive intelligence analysts are neither.

Looking at the work that Stiglitz has brought into mainstream economics and management, we can say with certainty that companies that use competitive intelligence will, in the long run, always have a better outcome than they might have without using it. And in addition, their customers will benefit as will the entire economic system.

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