



## **STAYING AHEAD OF THE COMPETITION**

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ON THE STATE OF CI IN AUSTRALIAN FIRMS**

### **EXECUTIVE SUMMARY – 2006 SURVEY**

This research report examines the ways that a representative cross section of the corporate population manage their knowledge of the competitive environment, and use it to stay ahead of the competition. It is based on two surveys, which were undertaken in 1996 and again in 2006, thus spanning a decade of enormous global change.

Over 500 firms were contacted, on the basis of stratified sampling from lists. A response rate of over 25% of existing firms was achieved, giving a total sample size of more than 250 respondents. The questionnaires covered some 65 questions, most of which allowed some comparison between the 1996 and 2006 surveys. Of the large respondents, more than half were affiliated with, or part of, an MNC group in both 1996 and 2006 so a large proportion of those sampled were internationalised in some form.

Managers acknowledge that they face significant competitive challenges. Over 88% of respondents see the present level of competition as being "very high" or "extremely high". This perceived level of competition has increased since 1996.

There has been an increase in the expected future level of competition since 1996. Even though a majority of managers now see the current level of competition as extremely high, 90% see it increasing further over the next three years.

If managers are to make good competitive decisions in this extremely competitive environment they need access to timely, relevant and reliable information. This need for better CI is widely recognised by respondents. What existing competitors are likely to do, and what new and potential competitors might do, clearly top the list of concerns with around 60% of all respondents rating these as a "major" need. The level of need for information required in order to remain competitive has generally increased by a statistically significant amount since 1996.

However the main focus of these needs tends to be rather limited and myopic. It focuses primarily on rivalry (what immediate rivals and potential rivals might do) rather than on more general competitive forces (such as socio demographic or regulatory changes), which can often rewrite the rules of the game.

While 55% of respondents say they are above average in competitiveness, only 38% say they are above average in ability to track their own competitive position, and only 26% say they are above average on their ability to track what competitors are likely to do. There has been a sharp decline since the 1996 survey in managers' ability to track their own competitive position and to track that of their competitors. This seems to reflect a more realistic and accurate appraisal of CI ability, rather than any actual decline.

There is a lot of room for improvement in basic CI capability in a typical firm. A surprisingly high proportion (above 40%), of respondents are unprepared and unable to meet common CI challenges even half the time. The most notable weakness is that 79% of respondents say that less than half the time is it "*simple and easy for staff to put information that they come across into a Competitive Intelligence or KM system*".

This has major ramifications for the effectiveness of CI, because if information is difficult to get into a CI system, there is no way it can be stored, analysed and communicated. It means that the huge investments firms have made in IT and KM are less effective than they could be, and it means that CI systems tend to be limited to rather primitive informal arrangements.

The processes used to track competitive forces are generally rather basic. Rumours and personal contacts remains the most important source of information, with 66% engaged in regular or continuous use.

On the other hand, there have been marked increases in the intensity of use of most sources. For example, the use of internal staff (as distinct from sales and marketing and front line staff) has trebled, the use of external consultants has doubled, in-house market research has almost doubled, as has the use of conferences, trade shows and expos. Web search engines are now a major feature of source usage. All this points to there being an increase in the level and intensity of use of search and sources in respondents' CI efforts. However, the improvement of CI management practice is taking place in an unbalanced manner, focussing mostly on collecting of information, rather than adding value to it by analytical processes. While collecting information is relatively easy to do, it does not lead to better CI.

The expenditure on CI expressed as cents per dollar of turnover is about 0.3 cents for all firms. For large and medium sized firms the expenditure is only one tenth of one cent (0.1 cents) of every dollar of turnover. Comparison with 1996 data tends to confirm this pattern, and the approximate values. What this demonstrates is that most CI systems are quite low cost.

Small firms (employing less than 20 people) face a significant cost disadvantage relative to larger firms in obtaining CI; their expenditure is about ten times more than a large or medium sized firm might spend as a proportion of sales revenue. Firms of this size make up about 99% of all enterprises in almost all economies. They are a major dynamic source of innovation and competitiveness, as well as of job and wealth creation. It appears that this cost disadvantage may be placing a competitive handicap on smaller firms in an increasingly competitive, knowledge driven, global economy. This has many implications for the firms themselves, and for government policy.

Only 28% have plans in progress to improve their CI capability and a further 35% have some plans. The main emphasis of these plans is on improved integration of CI

with strategic decisions, and with more systematic use of CI. IT systems rank last as a priority area for improvement.

Most CEOs and boards in Australia are running companies where their managers are below an achievable benchmark of being prepared "most of the time" to deal with common CI challenges. Very few firms have benchmark world-class CI systems with comprehensive, systematic, well organised, continuous CI use. A typical CI system is rather basic, best described as *"ad hoc use of CI when needed (eg when entering a new market or launching a new product there is a special effort, especially on market research"*. This should be ringing alarm bells in boardrooms and at CEO levels.

Most CI systems are not of a level to really be able to assist managers cope in the extremely competitive, and increasingly competitive, dynamic conditions they face every day. The vast majority of CI systems fall well short of benchmark world class. CI is generally seen as an ad hoc afterthought, not as an integrated part of strategic and tactical competitive behaviour.

About 60% of the respondents clearly demonstrate evidence of the "intelligence puzzle"; that is, despite clear recognition by managers of the need for CI, only a minority of managers make effective use of basic CI techniques for monitoring competitiveness. The essence of this is that firms are unprepared, and lack the capability to meet their CI needs, especially when those needs are high.

This broad pattern of competitive intelligence in Australia has not changed a great deal in the past 10 years, even though, on the one hand, the pressure of competition has increased, and on the other hand, the CI processes and techniques available to managers have improved.

In conclusion, we would state that just over half of the corporate population manifests some evidence of an unhealthy degree of ignorance, dissonance, or lack of trust. As a result CI capability tends to be significantly inhibited by the presence of these three factors. In a highly competitive globalised environment, this has enormous consequences for the competitiveness of firms, and nations.

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