

THE CASE OF THE CORPORATE SPY: IN A RECESSION, COMPETITIVE INTELLIGENCE CAN PAY OFF BIG

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When executives at Texas Instruments Inc. began suspecting that a rival might move to acquire Telogy Networks Inc. two years ago, it set off alarms deep within the company. At the time, Telogy provided the software for TI's Internet telephony hardware, so a rival's acquisition of the company would be disastrous. A half-dozen executives, acting as TI's corporate spies, sprang into action, quickly contacting Telogy execs and dispatching finance people to research the company. The "competitive intelligence" they developed convinced management that it needed to acquire Telogy quickly--and safeguard what is now a \$100 million business with enormous growth potential at a time when bright spots on the tech horizon are few. "It's a fact: If you snooze, you lose," says Jeffrey S. McCreary, senior vice-president for worldwide sales and marketing. "Competitive intelligence is your best alarm clock."

Never is that truer than during a recession. For what amounts to a fairly modest investment, it is possible for a company to create a competitive-intelligence unit that gives its managers the one thing they need most in a downturn: a crystal ball. They can't predict the future, but corporate spies can help managers understand what competitors have up their sleeves, information that they can use to deploy scarce resources, price products and services, modify strategies, and avoid costly mistakes. "When you're going into a war situation, you don't want to be cutting the budget of the CIA," says Michael Mace, chief competitive officer at handheld-computer maker Palm Inc. "And when you're going into a recession, you don't want to be cutting your ability to look into the future."

Competitive intelligence involves legal methods of data collection and analysis, from scouring securities filings and news reports to database research to schmoozing with representatives of rival companies at trade shows. That's different from corporate espionage--the theft of trade secrets through illegal means such as wiretaps, bribery, and cyberintrusions.

Still, some intelligence-gatherers step over the ethical line. Procter & Gamble Co. last year hired spies to snoop on rival Unilever PLC but pulled the plug when it discovered that one of them had rifled through Unilever's trash. And Oracle Corp. admitted that detectives it hired paid janitors to go through Microsoft Corp.'s garbage, looking for evidence to use in court.

SOPHISTICATED TOOLS. The ranks of legitimate spies have risen dramatically, by over 220% in the past decade, so that more than 5,000 corporate spies are now actively engaged in intelligence activities. Nine out of 10 large companies have employees dedicated solely to the competitive-intelligence function, according to Leonard M. Fuld, president and founder of Fuld & Co., a Cambridge (Mass.) intelligence consultant. Most reside in marketing, strategy, and

information-services departments, answering to anyone from midlevel managers to the CEO. Increasingly, corporate intelligence-gatherers are better educated--many have MBAs or professional certification, or have studied corporate spying at the growing number of universities that offer courses in it, including Brigham Young University and the University of Pittsburgh. And the tools at their disposal, including search engines, are more sophisticated.

Many large U.S. companies spend upwards of \$1 million a year tracking their competitors, and they build the information right into their sales strategies. The top corporate spy at a multibillion-dollar global technology company, who requested anonymity, says intelligence helped his company recover after it was blindsided by a competitor. The rival, after going toe-to-toe with the company for years, had figured out its bidding strategy. Instead of competing on price with an off-the-shelf offering, the rival was beginning to offer prospects a customized solution--and it was winning. When the spy's company shifted gears to a customized approach, it won hundreds of millions of dollars in new business the following year. At Pergo Inc., a maker of laminate flooring, intelligence helped steal a major contract right out from under a rival's nose. When Pergo told a national retailer what it had learned from a mutual supplier--that the rival would not be able to launch a new product when it said it would--the retailer signed with Pergo instead. Says Senior Product Manager David Sheehan, Pergo's corporate spy: "It's not rocket science. It's basic blocking and tackling."

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Competitive intelligence can also help companies avoid unnecessary costs. At Phoenix-based electronics distributor Avnet Inc., in-house analysts predicted--correctly--that four of its rivals in the server industry would soon be out of business. So when two of them began offering special financing deals to grab market share, Avnet stayed on the sidelines. Intelligence developed by Avnet's analysts allowed company managers to avoid a potentially crippling fight and to compete forcefully with the rivals that remained. Says Eric Scheer, a business intelligence analyst at Avnet: "It gave them some vision down the road and assisted them in creating new strategies. It helps them make much more informed decisions than they could have made in the past."

LEG UP. Increasingly, that's a lesson lost on many companies. When demand dries up, says Bill Lewis, director of McKinsey Global Institute, competitive intensity increases dramatically. Yet when companies are besieged by collapsing profits, it gets harder to justify a team of crystal-ball gazers. In fact, Avnet lost one of its four corporate spies during companywide layoffs in October, and the unit's budget for the year is down 20%. Kairn Pawlikowsky, manager at Avnet's business intelligence office, says the cutbacks will not hamper its ability to gather intelligence.

Industry-sponsored research, while far from conclusive, suggests that companies that engage in corporate spying see a payoff in increased revenue, costs avoided, and better decision-making. With the economy in free fall, those advantages can make all the difference. "Visibility in the business world is so low right now," says Mark R. Little, director of strategy analysis for GlaxoSmithKline PLC. "If you don't have competitive intelligence, you're going to be in trouble." And if you do, at least you'll see it coming.