



Stiernberg Consulting White Paper Connecting the Dots Q2 2009

When In Doubt, Find Out!

Using Market Intelligence to Manage Risk and Uncertainty

Overview

How big is the market, and what's our share? What's the forecasted growth and demand for our products in our target channel or market segment? ...in new uncharted segments? Which vertical markets will heat up over the next three years? Which ones will wane? What business and technical trends have the most impact on our future sales and profits? These are among the questions that targeted market intelligence answers.

The current economic downturn, like a magnet, has pulled all eyes from the traditional inward focus to the vast outward panorama that is the external business environment. Against a terrain of shifting customer needs and related uncertainties, the currency of market intelligence has appreciated. "Unknowns" are more prevalent and more fearsome than ever, and "knowns" of any kind have increased in value. The value of good decision making has also appreciated as companies in our industry rely less on innovation-driven luck and more on plan-driven stability and growth.

This Stiernberg Consulting White Paper on market intelligence presents timely perspectives on:

- Risk vs. uncertainty
- Definition of market intelligence and related key concepts
- Role of market research from data to intelligence
- Myths and realities about market intelligence
- Aspects and functions of market intelligence
- Linking market intelligence to strategic planning
- Raising your market intelligence IQ: Getting started
- Critical success factors and tips

Risk vs. Uncertainty

To say that the current business environment is fraught with risk and uncertainty is an understatement. Changing market conditions have prompted business analysts to differentiate between uncertainty and risk, as the venerable economist Frank H. Knight

did several recessions ago (*Risk, Uncertainty and Profit*). There's an important distinction to be made here. Uncertainty tends to engender more anxiety and decision making based upon emotion since there are fewer calculable probabilities to manage against. Risk, while always a challenge to manage, is defined by more knowable probabilities. Astute business people are more adept at managing risk; in fact, they do it all the time. But uncertainties are more fearsome and can even be paralyzing. Even the best managers and executives can get stuck when they are faced with uncertainty in the marketplace.

It's easy to think of "risk management" mainly in financial terms. However, a solid risk management system is far more comprehensive and encompasses all aspects of the internal (your company) and external (the market as a whole) business environment. Risk management starts with predicting a set of probable occurrences and then playing out a set of "if-then" scenarios, leading to solid business decisions and implementation plans. As such, market intelligence is indeed a vital risk management tool. A robust and focused market intelligence system can help companies deal with both risk *and* uncertainty. Targeted market intelligence provides the decision support so necessary to flourish vs. just survive.

What's in a name? Market Intelligence, Competitive Intelligence, Business Intelligence Defined

In the general business media, the term "market intelligence" can sometimes take on a narrow association relating to targeted customer groups. In our practice, however, we use the term in its broadest sense to draw attention in our industry to the need for a more outward, external view. "Business intelligence" (BI) is the more common, and arguably more accurate term in the general media, for taking an outward, strategic view at the entire business environment. "Competitive intelligence" (CI) is used most by those professionals who specialize in that field; however, this term, like "market intelligence," can erroneously connote too narrow a focus and additionally is often mis-construed to mean "competitor intelligence."

The Society of Competitive Intelligence Professionals makes it clear that CI focuses on the *entire* external competitive environment. In our practice, we have adapted their definition as follows:

"Market intelligence is a systematic and ethical program for gathering, analyzing, and managing information that can affect your company's plans, decisions, and operations."

So whether you call it BI, CI, or "market intelligence," the important elements are:

- A vital management tool that takes a comprehensive view of the external business, competitive, and market environment
- Yields actionable intelligence for strategic as well as tactical decision making
- Adheres to the most stringent ethical standards.

Like Radar on the External Business Environment

Here's a business truism. Cutting edge businesses track external conditions, like the pilot using a plane's radar system. As Herbert E. Meyer in his book, *Real-World Intelligence*, points out, "Business intelligence is radar for business." The strategic business plan, roughly analogous to a flight plan, needs clear goals in terms of the destination but needs to be somewhat flexible to allow for agility, depending on the changing external conditions.

Unlike the wryly fictitious "retrospectroscope"—the most accurate instrument known to man—actual radar does not reveal the whole picture of what's coming. Competitive market intelligence information, like radar, is primarily a "pattern spotter." It requires knowledge of the external business environment for meaningful interpretation, also known as "intelligence."

The goal of competitive market intelligence is to answer this question: "In light of our business objectives, what do we need to know to make good decisions?" Market intelligence doesn't operate in a vacuum or for its own sake. Its purpose is always to provide decision support.

The Competitive Business Landscape

Let's look out on the external business environment in a comprehensive way. There are ten broad categories of intelligence to monitor in our industry. They include:

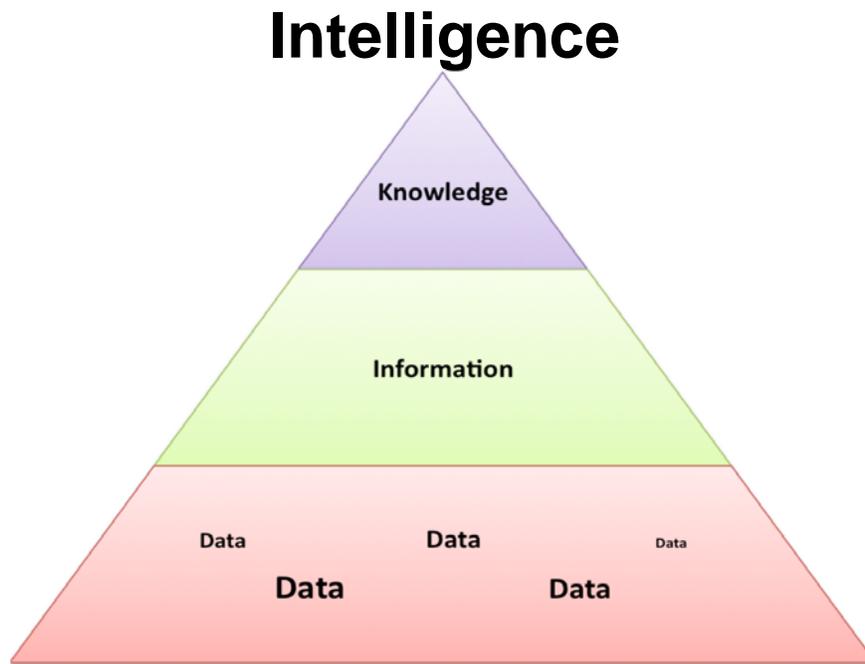
1. Competitors
2. Economic factors
3. Legal and regulatory issues
4. Sociopolitical and cultural influences
5. Applications and technology
6. Vertical venue markets
7. Channels of distribution
8. End-user profiles, buying criteria, and preferences
9. Specifiers and influencers
10. Suppliers

Depending on a company's situation or the decisions it is making, the relative importance of each category of intelligence is dynamic. For example, startups have different needs from established businesses. Companies that want to grow have different needs from those that simply want to protect their market share. In terms of mergers and acquisitions, buyers have different needs from sellers.

Some of these ten categories require close and detailed monitoring; some need only a watchful eye to spot changes. Caught early enough, shifting patterns in the landscape can signal changes and help anticipate needed course corrections.

Where Does Market Research Fit In?

Market research is a vital tool that can provide valuable data and information. Market intelligence applies knowledge gained from the market research to inform decision making, both on a tactical as well as a strategic level. The pyramid below illustrates the flow from raw data up to applied intelligence.



This pyramid depicts the hierarchy of value from raw data up to applied intelligence.

When to Use Secondary vs. Primary Research

Make no mistake—market research is an important tool to use on the path to the goal of market intelligence. There are broadly two types of market research: Secondary and Primary. Each type has advantages and disadvantages.

Secondary market research taps into information that already exists. Examples of secondary market research sources include off-the-shelf market research reports, trade magazine articles, financial news, blogs, and websites. The advantages of secondary research are that it already exists and may have third-party credibility. The disadvantages of off-the-shelf or syndicated reports are that the information tends to be too general, dated, and can be time consuming to mine and extract the needed knowledge. The biggest challenge with secondary research is knowing what to look for and where to look.

Primary market research is also called “ad hoc” research. This is custom research designed to answer specific questions for a specific purpose. It can be simple—from an

internal customer satisfaction survey—to complex and multi-dimensional, such as a large study of an entire product category or market sector. The advantage of primary research is that it is highly targeted and efficient, and can yield specific current information that is unique to your situation. The disadvantage is that it takes expertise, time, and resources. The main challenge of primary research is gathering enough of the right data points to make valid assumptions.

Savvy companies use a robust mix of both secondary and primary research in their market intelligence system.

Market Intelligence Myths and Realities

There are aspects of market intelligence that are often misunderstood. Here are five market intelligence myths, followed by their respective realities.

Myth 1: Market intelligence is mainly about sales statistics.

Reality: Sales statistics are only one aspect of the picture of the business environment, and they are, by their very nature, historical data. While market sizing and market share analysis is important for a company's perspective, other elements that will affect the numbers are even more vitally important. Examples include 1) future market forecasts by application segment, channel, region, or vertical market, and 2) analysis of the market drivers and constraints that have an impact on future sales and profits.

Myth 2: Market intelligence is just for large companies.

Reality: Any size company needs and can benefit from knowledge of the external business environment. In fact, we've all heard the adage, "knowledge is power." Let's extend that and say "market intelligence is power." Furthermore, any size company can set up its own internal scalable and modular market intelligence system to keep an eye on the radar screen of the external competitive market. Being smart about the external business environment—having a high market intelligence IQ—has nothing to do with company size. In fact, market intelligence is a key tool for today's small company to become tomorrow's market leader.

Myth 3: Market intelligence is a purely academic discipline.

Reality: It's true that formal surveys and statistical treatment of data require specialized training, knowledge, and expertise. However, setting up and making active use of a functioning market intelligence system is a competitive advantage in business—not just something for the bookworms and academics. It starts with basic knowledge of the industry, knowledge of your company in terms of its strategic and tactical direction, and the ability to ask the right questions. Add to that the ability to organize information, the keen desire to make sense out of your observations, and a comfort level with ambiguity.

Myth 4: Competitive market intelligence is spying.

Reality: Nothing could be further from the truth. There is no place for unethical behavior in the practice of competitive market intelligence. Period. In fact, the Society of Competitive Intelligence Professionals requires members to adhere to a stringent code of ethics. Market intelligence professionals know that all the information one needs to make good decisions in business is available through public sources. Upstanding and sustainable professional behavior calls for the highest expectations and standards of ethics.

Myth 5: Market intelligence is too expensive right now. It's something to work on when times are better.

Reality: In uncertain times, business risk is higher, and market intelligence has more value than ever. Strategic directions may need to shift. Target markets may need to be more tightly focused. New end-user opportunities may emerge. Competitors could make missteps and become more vulnerable. Uncertain times call for anything that strengthens a company's ability to compete—market intelligence is an important tool that can help mitigate uncertainty and manage risk.

Why Market Intelligence? Why Now?

Planning new products? Entering a new market segment or channel? Forecasting next quarter's sales? Market intelligence provides the knowledge required to address these and related issues with more surgical precision. While it's convenient to think in terms of generalities in a "down" market, a closer view actually reveals market unevenness, with some markets shifting. Some sub-segments are down more than others. It's that view of the market nuances that enables some companies to succeed and capture the subtle growth opportunities even against a backdrop of generalized market sluggishness.

Furthermore, a "down" economy can be a great leveler. Dominant market leaders may pull back or falter, opening up new opportunities for smaller, more agile companies. Having the clearest understanding of market drivers, customer needs, brand preferences, purchase criteria, and values allows a company to crystallize its products and its brand position to meet the market's changing and more specific, nuanced demands.

Charting an enterprise's course also requires more "in-sync-ness" today than ever before. A challenging market also tends to reveal companies' internal weaknesses or disconnects that could otherwise be masked in a robust market. Having a clear path, informed by solid market intelligence at every stage, paves the way for leading all aspects of your enterprise toward focused, common goals. In these tougher economic times, a strong bond between market intelligence and strategic direction is a clear and present competitive advantage.

Scenario Planning

Uncertain times spawn new questions. This is healthy and normal. The degree to which an enterprise can embrace, articulate, and address the questions is a measure of its market intelligence IQ. Astute companies have the skills to narrow the focus and formulate questions that can be used as the basis for “scenario planning,” which is the art and science of mapping out multiple future options for your business. It involves making assumptions about what could happen in the future if certain business conditions are met.

A plan for a new business includes the description of a future scenario that is potentially attractive to investors, key employees, prospective customers, and other stakeholders. But what if your business is not a startup? You can still apply the same scenario planning techniques and financial modeling to grow or protect your established business as you would with a new business.

Scenario planning is a vital application of your market intelligence system. The best scenario planning happens when there is a good flow of current market intelligence to support the “what-if” questions.

Trend Spotting

Trends are simply patterns—you connect the dots to see where things are headed. Astute business people who have an eye on the competitive environment may spot anomalies, or unusual things that occur in any of the ten categories or elements of the business environment mentioned on page 3. Anomalies themselves bear watching since they may be early signs of trends to come if they gather momentum. Example: An end-user asks to use her iPhone as a system controller for a boardroom AV system. The system integrator responds and starts offering the solution to other clients. Is this the start of something big, or just a fluke? Again, look for patterns on the radar.

In any case, pattern shifts deserve attention. Good business risk management requires an eye on patterns as well as on the “outliers.” Future trends all start as non-conforming data. In other words, spotting emerging trends requires noticing things that do NOT fit a current pattern and engender a remark like, “Hmm, that’s unusual!” inspiring the “Let’s keep an eye on this” response.

Market Intelligence Links to Strategic Planning

Disciplined strategic planning is more important now than ever. As Michael E. Porter observed in his book *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, “An undisciplined or opportunistic strategy may work in the short run, but it usually maximizes the exposure of the firm to the intense competitive forces common in fragmented industries in the longer run.” Business intelligence supports and helps drive

strategy, not vice versa. Scenario planning is a useful business tool to deal with uncertainty. Doing “what-if” analysis supported by market intelligence can be powerful. As we’ve said, the primary application of market intelligence is decision support. And decisions are often responses beyond a simple “yes” or “no.”

Following are examples of questions whose answers are informed by good, clear, targeted market intelligence:

- What customer segments have the most growth potential?
- How effective are our field sales, product development, and promotional programs in targeting these segments right now?
- How are end-users in our target vertical venue markets making purchase decisions now compared with a year ago? Where do they get information to support those decisions?
- What opportunities have emerged to invigorate brand loyalty? What threats do competitors pose in terms of influencing our loyal customers to switch?
- When will the current downturn end and when will things start to stabilize from an economic standpoint?
- Are we basing our sales expectations on a current, objective forecast of growth potential for our product categories? Or are they only based on a few quarters-worth of historical data?
- What’s our current market share, and where do we stand competitively in terms of mind-share?

These are examples of the kinds of questions to address to turn uncertainty into manageable risk, and then to formulate a plan to manage and control those risks.

What’s Your Market Intelligence IQ? Five Easy Steps to Get Started Now

How well equipped is your company to activate its radar on the changing business landscape? Do you have an active market intelligence function? Do you know what questions and issues to address? Who’s going to do the work? What resources are necessary? In short, are you prepared to amp up your company’s market intelligence function and turn it into a competitive advantage?

Here are five steps for getting started:

1. Identify the critical business questions that need to be answered (see the sample questions above).
2. Identify resources for answering the questions starting with what’s already available within your company.
3. Pool your company’s resources, and consolidate information and market knowledge into a central location.

4. Identify the gaps. Determine which missing pieces of market intelligence are critical to your future success, both short-term and long-term.
5. Designate a market intelligence champion that reports directly to your company's President or CEO. The days of an isolated market research department churning tons of data for its own sake are over. This is the old, inefficient approach that still exists in some mega industries such as pharmaceuticals, aerospace, or automotive. In our unique industry, we have the opportunity to be more targeted, more efficient, and more agile.

Critical Success Factors: Bonus Tips

Here are success tips for successfully integrating market intelligence into your company.

- Set up the market intelligence function to operate in a systematic way. Remember the ten broad categories of intelligence described on page 3 and create "lookouts" for each one.
- Get executive commitment early on. If the boss isn't behind it, it is less likely to happen.
- Be comfortable with ambiguity. It's not going to be perfect. Getting close is better than doing nothing at all.
- Don't assume everyone in your company has the same information. Share even what you think is obvious with the rest of the team. Market intelligence is inherently collaborative.
- Recognize that the market intelligence system is an ongoing tool for monitoring changes and ultimately dealing with risks in the external business environment. This is a skill that keeps getting better the more that you use it.

When in Doubt, Find Out!

Don't fly blind, especially in today's market. You can manage both uncertainty and risk in business by applying market intelligence actively and consistently. The information you need to answer those critical strategic questions is more readily available than you may think. Systematic market intelligence is your competitive advantage in these challenging times and into the future.

Questions about this white paper? Call +1 818-784-8618

About This Series

Stiernberg Consulting monitors market conditions, talks with industry stakeholders, and identifies trends and issues on a continuous basis. Our White Paper Series brings the results of these efforts to the industry. Topics range from market dynamics to best practices. All white papers are offered free of charge.

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