Society of
Competitive Intelligence
Professionals

Situational Early Warning
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Agenda

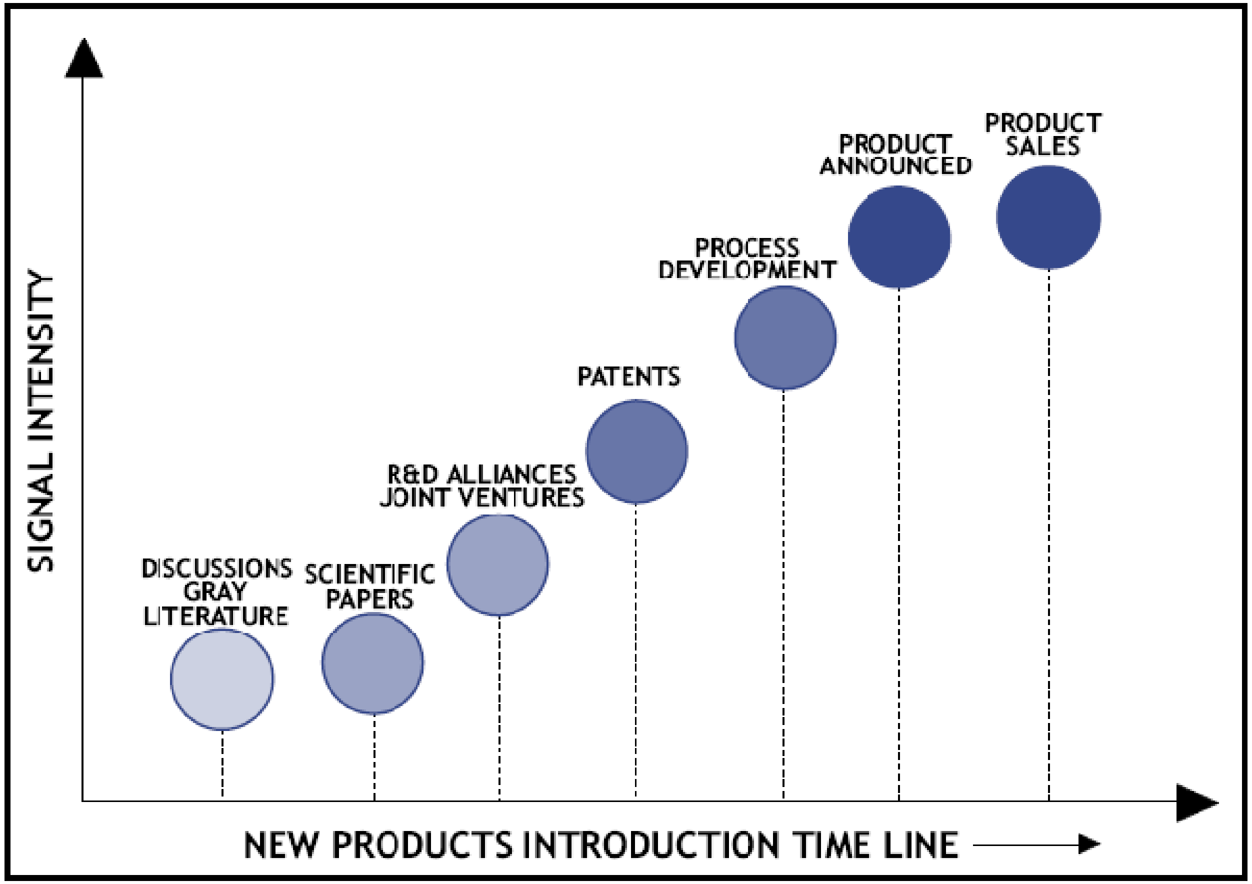
1. Basic Concepts on Early Warning
2. Problems with strategic early warning systems
3. Situational early warning
4. Example
5. Summary
6. Questions and Answers

1.0 Early Warning: Meaning

- **Early Warning for Midas Consulting:** A program by means of which the company **tries** to minimize the effect of **threats** on its performance and maximize the value it obtains from **opportunities** by attempting to **foresee what would happen** next **and take decisions** based on that knowledge.

A story about a flooding, a priest and early warning

1.1 Early Warning: Signals Become Stronger Over Time



Source: Technology Intelligence at Air Products, Merrill Brenner, Competitive Intelligence Magazine, May June 2005

1.2 Early Warning: Applications

- Some of the situations an early warning system might help to prevent are:
  - The entrance of a competitor
  - The acceptance of a technology
  - The enactment of a new law
  - The emergence of a price war
  - The introduction of a promotion
  - The launch of a new competing product

1.3 Early Warning: What happens at the companies?

Strength of the capability

Need for an early warning system		Low	High
	High	**Vulnerable**	**Vigilant**
	Low	**Focused**	**Neurotic**

Source: Peripheral Vision, George Day, Paul Shoemaker,
Harvard Business School Publishing, 2006

2.0 Problems with Strategic Early Warning Systems

- Early warning systems often fail to give proper attention to tactical problems, such as:
  - The emergence of a price war
  - The introduction of a promotion
  - The launch of a new competing product
- Excessive focus on long term
- Incremental change is not well taken in strategic early warning systems

3.0 Situational Early Warning:

- The basic steps for situational early warning are:

1. Identify players
2. Set and prioritize the situations and players to monitor
3. Define leading indicators
4. Monitor situations
5. Analyze the indicators to find out which situation could be occurring
6. Determine and implement action
7. Learn from the implementation

3.1 Identify Players

Market Commonality	Resource Similarity: Low	Resource Similarity: High
High	**Close Substitutes**	**Direct Competitors**
Low	**Distant substitutes**	**Potential Competitors**

Source: Competitor Analysis and Interfirm Rivalry, Ming-Jer Chen, Academy of Management Review, 1996.

3.2.1 Set and Prioritize the Situations to Monitor

- The most typical situations to monitor in situational early warning are:
  - The launch of a competing product
  - The emergence of a price war
  - A competing aggressive promotion
  - The introduction and acceptance of a technology
  - The entrance of a new competitor

3.2.2 Set and Prioritize the Situations to Monitor

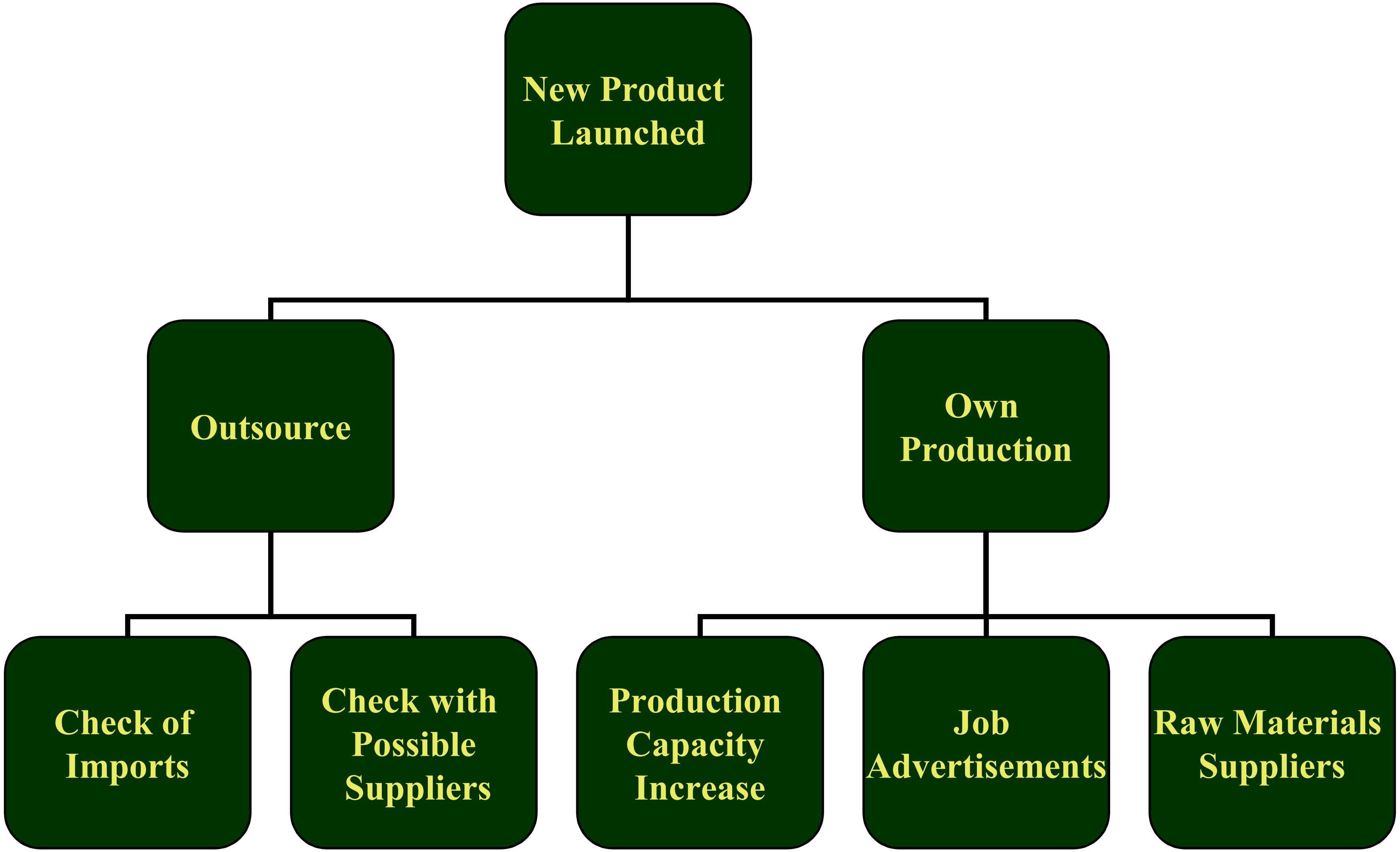
Level of Uncertainty

Impact on the organization

	Low	High
High	**Givens**	**Early Warning**
Low	**Unprofitable**	**Throw Away**

Source: Midas Consulting's Analysis

3.3.1 Define Leading Indicators



3.3.2 Define Leading Indicators

Indicator	Level of uncertainty	Time to Threat	Possible internal Supplier
Machinery supplier	Mid	Long	Manufacturing & Procurement
Patents analysis	Mid	Long	R&D
Brand registry	High	Long	Marketing
Trade fairs	Mid	Mid-Long	Marketing, Manufacturing
Suppliers of strategic raw materials	Low	Mid	Procurement
Company strategy in other markets	Low	Mid	Strategic Planning
Government sources	Mid	Mid	Management
Chambers and associations	Mid	Mid	Management

Source: Midas Consulting's Analysis

3.3.3 Define Leading Indicators

Indicator	Level of uncertainty	Time to Threat	Possible internal Supplier
Job advertisements	Mid	Mid	Human resources
Import analysis	Mid	Mid	Procurement/Marketing
Periodic surveillance of competitors' facilities	Mid	Mid	Manufacturing
Financial statement analysis	Mid	Short	Finance
Customers and distribution channel	Low	Short	Marketing
Trade press	Mid	Short	Marketing
Competitors	High	Short	Marketing

Source: Midas Consulting's Analysis

3.4.1 Monitor Situations

- Every early warning system has the precondition to diminish the number of blind spots for its company .
  - No one can warn about something he or she cannot perceive

- So far the presentation focused on looking for patterns or things that are indicators or signs of situations.

- But we can not foresee everything and every possible situation. As a consequence:

  - We have to keep an open and receptive attitude to perceive a lifeboat when we see one.

3.4.2 Monitor Situations

- To perceive a lifeboat when you see one. Monitor:
  - Price sensitive customers
  - Competitors' main customers
  - Competitors' main suppliers
  - The distribution channel
  - Lead users
  - Precursors

3.5.1 Analyze the indicators to find out which situation might be occurring

1. Identify the largest possible number of hypothesis to be considered

2. Make a list of the indicators found and others that can be used to draw a conclusion on each of the hypothesis

3. Prepare a matrix with the hypothesis as columns and the indicators or evidence as rows to diagnose the indicators for approving or rejecting each of the hypothesis

4. Refine the matrix, reconsidering the hypothesis and deleting the indicators that do not add any diagnostic value

3.5.2 Analyze the indicators to find out which situation might be occurring

5. Draw tentative conclusions and try to disprove each of them, as a means to see their robustness according to the indicators or evidence

6. Analyze how sensitive the conclusion is to the most critical indicators or pieces of evidence

7. Choose the one/s you believe are most likely

8. Identify milestones for future observation if not conclusive and time permits, so it can be seen if events are taking a different course

Source: Heuer, Richards J. Jr (1999), The Psychology of Intelligence Analysis, Center for the study of intelligence, Central Intelligence Agency

3.5.3 Analyze the indicators to find out which situation might be occurring

	Price War	Diminishing Inventory
Competitor X has excess capacity	++	+
Competitor X has lost share in the last three months	++	++
Competitor X has accumulated inventory	++	++
Competitor X would enjoy a cost advantage if operating at full capacity	++	+
Rumor that competitor X would lower prices on all products	++	+

3.6. Determine and Implement Action

- Ideally the output for management's decision should include:
  - A description of the possible situation that might be occurring and other possibilities based on other hypothesis
  - What might happen if the company does not take any action.
  - A set of courses of action with one chosen by the CI department, outlining:
    - The pros of every alternative
    - The cons of every alternative
    - The expected response from competitors.
  - In some cases, it can include the need for further investigation (only if requires significant resources, otherwise you do not need to alarm management).

3.7. Learn from the implementation

- If succeeded:
  - What went well?
  - Why were we successful?
  - What went wrong?
- If failed:
  - What was missing?
  - What was wrong?
  - What was right?

4.0 Situational Early Warning: Example

- Leading pharmaceutical company:
  - Chose a number of generics manufacturers to monitor (step 1), due to the impact of their strategies on its performance.
  - Wanted to monitor (step 2) if and when they could launch competing products.
  - Defined a series of things the competitors had to accomplish before launching the products. This would be step 3 (define leading indicators)
  - Monitored if the competitors acquired these resources given the fact that one of its patents would expire soon (step 4)
  - Found no sign that the launch would be occurring. This would be step part of step 5 (analyze indicators to find out which situation might be occurring)

4.1 Situational Early Warning: Example

- Invested resources to see if these competitors would actually be introducing competing products. This would be step part of step 5

- Realized that the competitors lacked a proprietary technology, which will tale them one year to acquire (Step 5 analyze indicators to find out which situation might be occurring)

- Decided (step 6 determine action) to:
  - » Launch an own generic drug to compete on price
  - » Gained 8% market share
  - » Foreclosed the entrance of the generic competitors

4.2 Situational Early Warning: Example

– The company learned (step 7):

» The methodology used was successful and could be used for other situations, such as promotions and price wars

» The investment had a positive pay-off

» The key indicators chosen were the right ones

» The company has to better estimate the value of its technologies. As some might seem mundane, but are not mastered by key competitors

» The share could be improved by entering into the price segment.

» It is better to have a price brand to fight potential generic drug entrants

5.0 Summary

- Early warning systems are neither complex nor have a substantial cost
- Their impact can be significant
- They require a wide view of the environment and especially of the future
- They need a lot of previous work to be effective
- Lifeboats come all the time, but need:
  - A clear definition of the issues
  - An receptive attitude towards change in the environment (finding and discovering)

6.0 Your turn

Questions?

Thanks for your time!

7.0 More Information

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