

# The Role of Competitive Intelligence in Shaping Strategy

Published in Competitive Intelligence for Law Firms

June 2008

## Introduction

There are many models in use that help decision makers better understand their competitive position and to guide their strategy formulation. They range in complexity from the intellectually impenetrable through the overwhelmingly obtuse to the stunningly simple.

Unsurprisingly, the simple but effective approach finds most favour with those seeking rigorous but actionable insights. Of these, the strategic triangle suggested by Kenichi Ohmae must rank near the top of the list for its usability and effectiveness. Three dimensions, it is suggested, should be considered in developing effective strategy (within the overarching context of the broader business environment). These comprise the client, the competition and the business itself.

By understanding the client (or prospect) better, the firm is able to develop products and services that most closely meet their needs. By having a clear view on their own business, its competencies and capabilities, management teams can conduct gap analysis to identify weaknesses and sources of advantage. Areas where investment is required, along with opportunities that do not deliver required returns and so should not be pursued, should emerge from such considerations.

## Why competitive intelligence matters

However, for many law firms there is a significant omission in their strategy formulation process when it comes to the question of relative performance and competitor actions. It is almost taboo to seek a deep understanding of competitor actions, yet this is often the route to true sustainable competitive advantage.

But, why is this the case? In reality, legal services are very rarely a discretionary purchase and so the client must make a choice between competing firms. The choice that is made is based on their perception of relative performance across a number of key dimensions. Some of these dimensions result from overall brand position whilst others emanate from service and operational features. The key word here is 'relative' – in a competitive situation the client will buy the service from one firm or the other. Whilst an ambition for perfection is laudable, what really matters is being distinctly better than the competition on the things that matter most to the client.

Many firms can talk eloquently about their own systems, approaches and product but are left fumbling when asked to describe how their offer is different and better than the one provided by the other firms under consideration. Some of this may flow from an admiral and natural dislike amongst professionals to 'knock the competition', but it is more often the case that a knowledge vacuum is the more fundamental driver behind such uncharacteristic reticence.

There is never a need to belittle competitors in such situations; simply articulating the benefits to the client of your firm's strategic position, investments, products and services will serve to highlight the same factors in the mind of client. An informed view of relative competitive strengths ensures that favourable dimensions for comparison are selected. Clients will then make their own judgements as to whether these factors are truly important, and sufficiently better than competing firms' offers, to create competitive advantage.

Any military strategist will affirm that information, knowledge and insight are fundamental to a successful engagement. One of the most significant turning points of the Second World War came with the breaking of the Enigma cipher and the subsequent capture of equipment and daily codebooks containing key settings used for implementing the code. Armed with knowledge of enemy movements, the winning of the war became immeasurably easier. Some estimates suggest that the war in Europe was shortened by two years as a result of the intelligence gained.

From a military perspective, it would have been viewed as reckless in the extreme to go into a combat situation without every possible piece of intelligence about the enemy gathered, analysed and factored into the battle plan. Clearly business is not war, but there are valid parallels to be drawn.

It is not suggested, of course, that industrial espionage is entered into but rather that firms use the legitimate tools already at their disposal to gather as much understanding as possible about the strategies and tactics of their key competitors. These can range from basic desktop analysis, through syndicated studies to research that has been specifically commissioned to illuminate issues or to answer questions of strategic significance. However, in discussion with management teams, it is often clear that the main sources of competitive intelligence on which they rely is the grapevine, hearsay and conjecture. This is not a sound foundation on which to develop competitive strategy.

## **The strategy process**

A simple but effective process model for developing strategy is put forward by Johnson and Scholes in *Exploring Corporate Strategy*, Europe's best selling text on the subject. Strategy development, it is suggested, should have a logical flow from analysis through planning to implementation. Research has led to a better understanding of the actual processes that take place in organisations and which give rise to strategic decisions. Crucially for those concerned with competitive intelligence, the central role that is played by knowledge-led insights is clear.

The four stages can be summarised as:

- Problem awareness. The recognition that 'something is amiss', that a state of affairs exists which needs remedying;

- Problem diagnosis. The collection of information about, and examination of, the circumstances of the problem and the definition of the problem;
- Development of solutions. The generation of possible solutions to the problem;
- Selection of a solution. The means by which a decision about what is to be done is reached.

Within the problem diagnosis phase, information gathering in a strategic context is likely to have both formal and informal dimensions.

On the informal side, intelligence and opinion will often be gathered from within the firm, its networks and the 'grapevine'. Indeed, it is a criticism of many strategy processes that too much reliance is placed on these informal processes which runs the risk of conclusions about competitive position being skewed.

In the worst cases, a phenomenon termed 'group think' may arise. The leadership team, in the absence of external information or challenges to current thinking, can find itself creating strategies which incrementally move further and further away from the reality of their markets, opportunities and threats. From within the group, the psychological forces at play make it extremely difficult to divert from the path that has been defined whilst, to the onlooker, the illogicality and impracticality of the chosen strategies are all too clear.

This is one of the primary reasons why the gathering of robust and reliable competitive intelligence, together with the use of independent experts to test thinking, is a key component of successful strategy making.

### **What types of competitive intelligence should be sought?**

There are many dimensions across which insight and knowledge can be usefully sought. These can range from top-line issues of direction, position and investment through to highly-granular tactical points based around specific service features or methods of delivery.

Many firms have no formal process for gathering and interpreting this knowledge. They rely on reacting to events as they unfold and tapping into their professional networks.

For the purposes of this Case study, the key competitive intelligence issues that should be considered are in the following areas.

### **Strategic direction**

Clearly, knowledge of a competitor's strategy is useful in shaping one's own direction. Many firms will talk in broad terms about their overall strategies and objectives in the same way as clients will articulate, in their annual report, their intentions. Clearly there is a level of strategy that is not publicised and it is in this realm that true competitive insights can be gleaned. This level of understanding can often only be gained by piecing together knowledge from a number of related sources or by looking (albeit retrospectively) at a firm's actions and drawing conclusions about what they say about its overall strategic direction.

## **Strategic moves and competitive response**

For this type of intelligence gathering, the evidence is clear because the strategic move is observable or the competitive response to the moves of others is in the public domain. Interesting aspects of competitor activity that can be observed at this level concern not just what is done but how it is done:

- Are competitors fast moving and highly responsive?
- Do they appear reactive or resolute in following a particular path?
- Is there a sense of purpose and leadership?
- Is there a clear logic in what they choose to do and not do?
- Do they appear to wish to lead the market, be fast imitators or are they more cautious in their approach?

Often observations concerning the style of management and its predisposition to risk will be good indicators as to the sort of strategic options that will be considered acceptable, likely or remote. Since potential competitor response is one aspect that must be considered before implementing a strategy, developing an understanding of how a competitor thinks can be just as valuable as an understanding of what he is thinking about.

The ability to anticipate and plan for a developing competitive situation can be vital in securing a sustainable advantage.

## **Relative strengths and weaknesses**

We have already seen that legal services are not purchased in a vacuum. The client will choose from the available firms on criteria that, whilst unique to each client, will follow a broad pattern across homogeneous purchaser organisations. Understanding relative strengths and weaknesses is the key.

Mapping performance against importance is one of the core tools used by analysts to identify gaps and areas where investment may be required.

## **Client base and client satisfaction**

The current client base is potentially a very valuable source of competitor information. Without breaching confidentiality, most clients will be happy to talk about what impresses them about firms, what they do well and how they view them in terms of their peer group. Importantly, asking clients to provide information that allows the gap analysis highlighted above to be carried out can be extremely insightful.

## **The network: other firms, introducers and intermediaries**

There is much shared knowledge within the professional network. Seasoned professionals also recognise that much of what circulates must carry a health warning. The combined effects of Chinese whispers and a tendency to exaggerate situation can create misleading or contradictory information.

Nonetheless, this is a source of competitive information that should not be ignored.

## **Product and service development**

Good awareness of new products and services being brought online by competitors is important. It both creates a picture of strategic direction and highlights any potential need for a competitive response.

On the face of it, once a new product or service is launched it should be relatively easy to gather competitive intelligence. However, many firms are increasingly (and understandably) protective about revealing too much about what they are doing. This is especially true in the case of service development initiatives.

This is because, within a competitive weight class, the opportunity to differentiate through product innovation is limited but service innovation offers real competitive advantage.

For many clients, it is not what the firm does, but how it does it, that matters. Inevitably many service innovations have very low entry barriers for the imitator and, consequently, keeping the detail of the new approach away from the public gaze has some commercial advantages. Of course, the disadvantage of not publicising new ways of working more widely is that the potential to win new business (especially with new clients) is constrained.

Monitoring the speaker topics at conferences and reading articles can often provide good insights into what firms are doing at a broad level but, as should be expected, there is a natural reticence to talk too deeply during such ‘taster’ sessions.

## **Values, culture, people and competencies**

There is now wide recognition of the importance of the employer brand and issues related to talent management, Generation Y and the creation of viable career paths in a fast developing (and challenging) economic model for law firms. Good talent is in short supply and the labour market is extremely mobile. A clear understanding of competitor firms’ propositions in the employee market, the values of their business and the ways in which their HR functions seek to maximise the potential of the human assets within their organisations should be sought. From initial recruitment, through career development and in the context of recognition and reward systems, there are points at which competitive advantage can be created though actions informed by better understanding.

## **Pricing**

Making efforts to understand how competitors price their work is an area in which many firms feel distinctly uncomfortable. A natural aversion to the whole topic of fee discussions, a lack of maturity of understanding of pricing models and limited perception of what value means to the client all act as disincentives. Yet clearly understanding the way in which a competitor prices its services provides huge opportunities for competitive positioning and to inform pricing strategies.

## **In conclusion**

For many law firms, there is a huge opportunity afforded by a more systematic approach to the gathering, interpretation and use of competitive intelligence to guide their strategy process. This applies both to the initial shaping of the strategy and also its monitoring and adjustment over time.

However, the approach must be systematic and continuous to deliver the required benefits. This means the management team being prepared to invest in a broader view of relationships intelligence.

Whilst most firms now have a client listening or service review system in place, few address competitor issues with as much thought, structure or process. Those that do will have a significant advantage in the increasingly competitive legal services marketplace.

