

Value-Driven Intelligence

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A Call Too Late

It was a weekday afternoon in the fall of 2007. Though sitting at my desk, I was speaking “virtually” with about a hundred other people around the world who share my interest in corporate intelligence. Specifically, I was midway through giving a live webinarⁱ on the Knowledge Value Chain[®] (KVC), a model I’ve developed to help people think about, and improve, their intelligence ROI.

A chat message came through on the screen sidebar from the head of intelligence at a large US company. She said her company was planning an all-day intelligence event, and they wanted to order one hundred copies of my new *KVC Workbook* as a discussion guide for attendees. This was the largest single order for the book to that point, on that basis I counted the webinar as a huge success. We left it that she’d call back the following week to firm up the order details.

She did call back the following week as planned...but the content of the conversation was much different than I’m sure either of us had anticipated. She was calling to say that the event had been cancelled and she would not need the KVC books. My disappointment gave way to sympathy when she continued that her small CI department was being disbanded, and it was possible several of them would even have to leave the company in search of new jobs.

I realize that things can change quickly in business, and you have to learn to “roll with the punches.” But I had a feeling of regret in that, if this person had had a working knowledge of intelligence ROI even six months prior to that, I’m confident that she could have addressed the “value” challenge, or even prevented its becoming an issue in the first place.

No intelligence professional wants to be on the wrong end of a discussion about return on investment. That’s what prompted me to develop the KVC approach in the first place.

Two Paths to Increasing Intelligence ROI

In the *KVC Workbook*ⁱⁱ (page 17) I discuss the two fundamental ways to increase the ROI of intelligence. One is (1) *doing things right*—that is, gaining operational quality and efficiency in the intelligence process. This is the core focus of the KVC approach. A discussion of this is outside the scope of this article—we’ve identified 67 distinct ways you can accomplish this, and there may be more—but it’s there in great detail in the *Workbook* and the Clinic and workshops that accompany it.

The other way to increase ROI is (2) *doing the right things*—that is, increasing the strategic relevance of the intelligence process by focusing it on the things that matter most to the enterprise. (I use “enterprise” to mean profit-making businesses, not-for-profits, and even public sector agencies.) Increasing strategic relevance is my primary focus in the balance of this article.

The two approaches to boosting ROI are complementary and can—and should—be engaged together. Both are essential, and if you address one without the other, you’ll risk running a less-than-optimal intelligence process. Hence we prefer to wrap both pieces into the simple mantra, “Focus on *things* that create value in *ways* that create value”.

Doing things right (the “bottom-up” approach) is typically within the control of the intelligence function – its managers, practitioners, and contractors. You can learn it, we can teach it – it’s a skill set and a way of thinking that can be acquired and developed.

Doing the right things (the “top-down” approach) is a more difficult task. As Sir Colin McColl, former head of MI6, British overseas intelligence, said, “The most difficult thing in intelligence is asking the right questions. Having done that, then getting the right answers to those questions is relatively straightforward.”ⁱⁱⁱ You need to be very focused on the “right things”.

The same is true in corporate intelligence. But what are those “right things”? How do you systematically identify them? Too often the task of knowing what to focus on is left entirely to people outside of intelligence function – to the “users” of intelligence – the executives and decision-makers who have the responsibility of acting on the intelligence.

User direction and input is fine, provided it is not used by intelligence “producers” as a rationale for ignoring the important leadership role they could be playing in this themselves. Intelligence professionals typically begin the dialogue with their users by asking, “What kinds of information do you need?” While this is well-intentioned, in my view it’s unprofessional to start the conversation with a decision-maker in this way. It positions the intelligence resource as a passive information “order-taking and retrieval” service, with little value-added advisory capability. Once that first impression is formed in the mind of a user, it’s hard to change it.

A more professional approach is to first gain an in-depth understanding of what users do, how they do it, what their goals are, and—here’s the rub—how this creates value for the enterprise. Then (and only then) can one initiate an “intelligent” discussion about the information needed to support that value-creating business processes.

Some intelligence providers are uncomfortable doing this, or don’t have access to the decision-maker clients to this extent. And even if you are able to successfully engineer such a “user driven” approach, the result could be an intelligence process that is episodic and piecemeal, and does not cover all elements that could significantly affect your business. I’ve proposed a more comprehensive and “proactive” method of intelligence planning and tasking in the “Case Example” section at the end of this article.

Measuring the Intelligence ROI Baseline

Before you start to improve the ROI of intelligence, you'll ideally conduct a baseline measurement of value-added, so that you can tell how far you've moved the needle. In order to do that, you first need to have a set of metrics for measuring the value of intelligence. In my chapter "Intelligence: Developing the Business Case" in the SCIP book *Creating a CI Function*^{iv}, I describe in detail a technique for measuring such ROI, as well as several companies' actual estimates for intelligence ROI.

I recommend that you read the chapter and follow the procedure I describe there. However, I'll admit that even some of my best clients don't go through the whole process. One client I work with who's very financially savvy uses one key metric – *costs avoided* by having information summaries prepared by intelligence professionals, rather than having highly-paid executives doing their own research, reading, and summarization.

There are other approaches I describe in the chapter. *Benefits created* can also be used—for example, an increase in sales due to intelligence. Although it's compelling if you can convincingly argue the business case, it's relatively hard to do since such benefits usually result from a synergy of causes, of which intelligence is but one. You can't often isolate the effects of intelligence—business is not a laboratory experiment.

Even more important than having the best metric or set of metrics for measuring the ROI of the intelligence function is having a shared understanding with intelligence sponsors of what those metrics will be going forward.

Their Mission is Value

We spend a fair amount of time in the KVC Clinic discussing value – what it means, how to measure it, how to improve it. Value seems like a simple concept at first, but the more you study it, the more complexities it reveals. I spent twelve hours a day in business school thinking and talking with smart people about how to create economic value, and I had more questions two years later than when I started.^v

Different parts of the organization may even define value in different ways. However, whatever their immediate responsibilities, your executive client-users all have a single over-arching mission in common: *Creating enterprise value on a competitive playing field*. That is what they're paid for, and that is "what keeps them up at night". To the extent you're helping them do that, intelligence is a means to that end, and you're providing value to them. If not, I'd strongly recommend you re-think your approach to such clients.

In the "game" of business, there are no points given for having superior intelligence.^{vi} It's making the intelligence you have work in creating value that earns you "points" (in the form of financial and other returns).

If as a decision-maker you have access to great intelligence, but have not developed the capability for using it to decide, act, and create value, the intelligence is essentially worthless. It's actually worse than worthless; when intelligence is seen purely as a cost—rather than as an investment—it can actually destroy value (though no fault of its own). This may have been the case in the situation I describe above in “A Call Too Late”.

A Case Example – “What is Driving the Value of my Business?”

At The Knowledge Agency® we've been researching and testing various ways of identifying the key value-creating centers within an enterprise. We got a chance to put this research into practice recently when a business strategist in a consumer-driven industry asked us to determine the key factors driving growth trends in his largest line of business. His “value” objective was to determine why the market for this category was changing faster than his existing forecasts had projected.

I dug deep into my analytic toolkit. In my years as a quantitative model-builder and forecasting analyst, I developed and used a general *heuristic* or rule of thumb for developing business forecasts. It went something like this:

- (1) develop your “best guess” as to the factors (*independent variables*) that affect the thing you're trying to forecast (the *dependent variable*, so called since it depends on those independent factors);
- (2) measure each independent variable and its relative impact on the dependent variable;
- (3) wrap it all up into a dynamic model of how things operate over time; and
- (4) using trial-and-error, test and retest your model using *backcasting* to refine the model's validity on past results that have already occurred.

That's it, four fundamental steps, and your model is ready to go. I'd been looking for a chance to test this method against more qualitative, global data. This was it – and it worked. I was pleased with the results— and more important, so was my client.

Here's how I did it. The “dependent variable” here was the growth trend in the marketplace. The independent variable we termed “value drivers”, since they directly impact the value result. I listed the factors that seemed most important in impacting that market—the value drivers. There were ten of them, though one itself had four components—so a “baker's dozen” of key value-driving factors overall. I used reliable external published sources to validate and refine my results.

To be fair, I should disclose that I've worked with this client for over ten years in day-in, day-out intelligence problems. So if I didn't entirely live and breathe the industry, I came pretty close. However, other experiences I've had lead me to believe that the intelligence toolkit I've developed would allow me to develop a similar model for any industry.

Next, I assigned relative impact weights to each of these drivers. My ideal was to have each of the drivers assigned a percentage weight, such that they collectively added to 100 percent of the influence on the dependent variable (market growth). I have not (yet) been able to reliably do this, so in the interim I assigned “high-medium-low” impact scores to each of the thirteen drivers.

Then for each driver, I built a *vector* or trendline that described the independent variable’s state at four time-points: the *present* time (give or take 18 months), the *recent past* (3-5 years), and the more distant *past*. I also factored in any credible forecasts of potential *future* states of any of these variables.

Now, we had *value drivers* weighted by impact and *value vectors*, the trends in each of those drivers. Many intelligence analysts would stop here, but I went “one step beyond”. Remember, it’s not enough to just know what’s happening—you also have to know what to do about it.^{vii} So I added another characteristic for each independent variable called *offset*.^{viii} This measured (again on an H-M-L scale) the ability of my client to, by investing resources, mitigate or slow any negative trends, and facilitate or accelerate any positive ones.

For example, the general economy (measured by GDP growth) has a medium impact in the sales of this company’s products, but the company has low offset—that is, little ability to directly mitigate that driver. On the other hand, another driving factor is the consumer tendency to switch to other related product categories, and here the company has a high offset capability (primarily through advertising and promotions in those categories it already produces, and by product development and acquisitions in those categories it does not). [TABLE 1, which shows three of the 13 factors for illustration.]

At this point I showed the model to my client. His comment was “You’ve accurately described our business. Keep going with it.”

Next I took the H-M-L measurements for each driver’s impact and offset, and built a 3x3 “tic-tac-toe” matrix for the results. [TABLE 2] This essentially allows us to visually represent trade-offs among the value vectors—in effect, it becomes a *strategic intelligence resource allocation* model.^{ix} Intelligence should “follow the money”, and this is what the model enables us to do—to assign intelligence resources based on the greatest “risks to value” impacting the business.

Now we’ve started building intelligence modules that track current developments in each of the thirteen drivers—with relatively greater emphasis on those that are high-impact, high-offset (that is, in the upper-right corner of Table 2), and somewhat less emphasis on those that are low-low (in the lower left). Bear in mind that these are all driving factors, and deserving of some level of intelligence focus.

I agree with my client that the model works, for now...but the vector for each driver needs to be monitored, since forecasts when made are no more than educated guesses. As “actual” data appears, it must be fed into the model to replace the forecast for that period.

Our model itself must be structurally dynamic, in that it accounts for changes in conditions. For example, as soon a new factor comes into play, or the weighting among the factors shifts, our model

itself will need adjusting. We'll need a systematic mechanism for making these *second-order* kinds of changes.

So for both the intelligence “buckets” themselves, and the size and shape of the buckets, continual monitoring and refresh of the model is needed. Those requirements become the foundation of our intelligence planning and tasking going forward.

We have in effect built a top-down intelligence model, one that creates intelligence around strategically relevant “drivers”, rather than using a bottom-up approach based on more mechanistic algorithms like lists of rival companies. We call this approach “value-driven intelligence”, since *it engages as drivers of the intelligence process those same factors that drive the value of the enterprise itself*. As a result, intelligence is inherently “synched” to how the enterprise creates value.

It's worth mentioning that of the thirteen factors driving this line of business, NONE of them directly derive from the actions of a rival company. It's my view that in favoring a more mechanistic approach over a value-driven approach, too many corporate intelligence practitioners are overwhelmed and distracted by the “trees” of rivals' maneuvers, and consequently miss the “forest”—the essentials of what is driving the market. This latter is often not a rival, or even groups of rivals, but a factor or group of factors that come from outside the industry (movements in the overall economy, or regulation, for example).

My client is a market leader, gaining share steadily, and for years they've set the direction for strategic developments in the industry. Following their followers makes no sense as a business strategy.

Q: When others follow you, whom do you follow? A: The developments and trends that create or destroy value for your business. That's what the model helped illuminate for them.

Summary

In this article I've had two fundamental goals: (1) summarizing a comprehensive five-step approach to increasing intelligence ROI and (2) describing one of these steps, that of increasing the strategic relevance of the intelligence process, in some detail. Similar detail on those other parts of the five-step approach is contained in other sources cited herein.

To minimize any confusion this may cause, here's a roadmap that summarizes the steps of the overall ROI process, and where the resource details for each can be accessed.

STEP	GOAL/ RESULT	RESOURCE
1 – ROI Metrics	Develop and agree upon intelligence return on investment metrics	"Intelligence: Developing the Business Case", chapter in <i>Starting a CI Function</i> (SCIP)
2 – ROI Baseline	Conduct a baseline ROI measurement using those metrics	"Intelligence: Developing the Business Case"
3 – Operational ROI Improvements	Increase operational quality and efficiency	<i>Knowledge Value Chain</i> [®] Workbook and Clinic
4 – Strategic ROI Improvements	Increase strategic relevance	"Value-Driven Intelligence" planning model described herein
5 – ROI Delta	Measure ROI again; calculate the change from the baseline; cycle back to 3 and 4 again	"Intelligence: Developing the Business Case"

Please feel free to contact me with any comments or questions.

TABLE 1: US WIDGET MARKET - Macro Market Drivers (excerpt)

VALUE DRIVER	VALUE VECTOR				RELATIVE IMPACT	RELATIVE OFFSET
	FAR PAST	NEAR PAST (3-5 years)	PRESENT	FORECAST		
Macro US economy (GDP)	Real GDP +3-4% per year	Real GDP +2.7% per year	Real GDP +2.2% per year	Most forecasts are for less than 2% real growth per year	Medium	Low
Counterfeits	Not known to exist	High prices and the Internet promote growth of counterfeits.	Estimated 10% of world widget sales	Growth of 5-7% per year in activity	Low	Medium
Shift to widget substitutes	Not known to exist		Both permanent and temporary shifts		High	High

TABLE 2: Strategic Intelligence Resource Allocation Model (excerpt)

RELATIVE OFFSET	High			Shift to substitutes
	Medium	Counterfeits		
	Low		Macro US economy	
		Low	Medium	High
		RELATIVE IMPACT		

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Tim Powell is president of **The Knowledge Agency®** (TKA), a financial and economic research, consulting, and training firm. His work integrates business strategy and information management. During a career that spans more than four decades, he has served over 100 global corporations, professional and financial services firms, entrepreneurial companies, and government agencies, among them **Abbott Laboratories, American Express, GE, Petrobras, Sony, Traveler's Group, the US Navy, and Xerox.**

Prior to founding TKA in 1996, he was Managing Director of the Strategic Research Division of FIND/SVP (now **ORC Guideline**), a global business research network. There he founded and led a practice that executed more than 250 successful assignments in evidence-based marketing and strategy, primarily for financial services and information clients. His specializations included customer satisfaction research and business process benchmarking.

He previously served as a Business Development Manager with **PricewaterhouseCoopers** responsible for the firm's new services and technologies development. He led the planning and development of several new lines of business in the financial services and retail sectors. He co-founded the firm's market intelligence function, and helped pioneer a firmwide knowledge management system. He created and led an initiative to apply information technologies and business analytics to the firm's sales, marketing, and strategy processes.

He began his consulting career with **KPMG**, where he specialized in predictive analytics and quantitative forecasting. Among client projects, he led the development of a 150-sector interactive financial model of the **New York State** economy that was used in evaluating tax rate scenarios. He also led firmwide initiatives in new product development and strategic planning.

Tim has been a leader in the corporate intelligence field since its early days. He is a Fellow of the **Society for Competitive Intelligence Professionals** (SCIP), where he held a series of leadership positions. He co-founded the **Business Threat Awareness Council** (BTAC), a joint public-private corporate security initiative, and serves as its corporate secretary.

He previously worked professionally as a medical research assistant, insurance underwriter, radio broadcaster and executive, urban ethnographer, technology journalist, musician, and sound recording engineer. He also served in the public and not-for-profit sectors, specializing in government productivity, financial accountability, and social entrepreneurship.

EDUCATION

Tim holds a BA in pre-medical science, psychology, and philosophy from **Yale College**, where he received a full scholarship from CIGNA Corporation. He holds an MBA from the **Yale School of Management**, and also conducted graduate studies at New York University's Stern School of Business and The New School.

PUBLISHING AND SPEAKING

Tim is a published expert in corporate intelligence, knowledge management, marketing, information technology, and financial econometrics. He has authored three books and made substantial contributions to several others.

- **Analyzing Your Competition – Third Edition** (1992, FIND/SVP) is a manual of competitive analysis techniques and sources
- **The High Tech Marketing Machine** (1993, McGraw-Hill/ Probus), a *Fortune* Book Club selection, is an early survey of technologies to support marketing and sales
- **The Knowledge Value Chain® Workbook** (2008, TKA Eyes and Ears) outlines TKA's intelligence methodology of the same name

He developed and taught a graduate course in competitive intelligence at **Long Island University**, and has lectured at NYU's Stern School, Rutgers, the Hartford Graduate Center, and the Yale School of Management. He speaks frequently at business and professional forums worldwide.

ⁱ Hosted by Arik Johnson of Aurora (www.aurorawdc.com).

ⁱⁱ *The Knowledge Value Chain® Workbook*, Version 3.2 (The Knowledge Agency, 2008). The Workbook is available at the SCIP bookstore (www.scip.org) and at www.knowledgevaluechain.com/products/workbook.

ⁱⁱⁱ Presentation to the Business Threat Awareness Council (BTAC), available in streaming audio at www.btac.us/audio.htm.

^{iv} “Intelligence: Developing the Business Case” in *Creating a CI Function* (SCIP, 2008). The book is available at the SCIP bookstore (www.scip.org.) A similar treatment is available as a TKA white paper; please contact me if you’d like a copy.

^v Another major help to me in thinking about strategic value was the book *Value Migration* by Adrian Slywotzky (Harvard Business School Press, 1996). I’ve read it twice, and benefitted both times. Any business leader can learn from this strategy classic, though it’s not widely known.

^{vi} In my workshops I challenge participants by overstating this as, “They’d probably prefer not have intelligence at all, if it would lessen the amount they have to read.”

^{vii} Peter Drucker said this more eloquently when he said, “The purpose of information is not knowledge. It is being able to take the right action.” (*Management Challenges for the 21st Century*, HarperBusiness, 1999, page 130).

^{viii} Thanks to Scott Leeb of McGraw-Hill for proposing the name *offsets*, and for his other helpful comments on the model. Reuben Danzing of C Squared Strategy and George Guernsey of Insight Mapping also provided useful feedback.

^{ix} Scott Leeb points out that this model can also be used to allocate enterprise resources *other than intelligence*. The most obvious example is resources used to mitigate or moderate any drivers that have a negative impact on value.