

# **Integrated Market Analysis: Linking Competitive Intelligence to Customer Research for Powerful Decision Making**

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## **ABSTRACT**

As the energy industry opens to competition, many utilities are establishing or revamping departments that provide decision-making support to marketing and product/service development endeavors. Two of the most common support functions are customer research and competitive intelligence (CI).

Unfortunately, many companies treat customer research and CI as wholly separate functions, housing them in different departments and giving them minimal interaction with each other.

When customer research and CI are integrated with each other and are involved at the strategic level, the result can be far more powerful. Input from competitive intelligence professionals enriches the design and the findings of customer research; in turn, input from customer research helps CI staff focus on gathering the most meaningful competitive information. This leads to a more complete understanding of the market, each company's competitive position, and new opportunities that may exist.

This paper will explain:

- What customer research enables an organization to do
- What competitive intelligence enables an organization to do
- What unique benefits can be derived by combining the work product of these two functions and involving both in strategy development
- Methods of integrating customer research and competitive intelligence in any organization

Finally, we will share an integrated market analysis approach developed by MarketPower, Inc. that will help energy companies:

- Assess their current level of market knowledge,
- Determine the most appropriate and effective methods for attaining knowledge, and
- Share what is learned to make decisions more effective.

## **Introduction**

A competitive marketplace is like a living organism. It is born; it ages; it becomes more complex and sophisticated- eventually, as technologies and customer desires change, it may die. (Remember CB radios? Typewriters? Girdles?) Any company's success in such a marketplace is driven both by customers' perceptions and by the realities of product alternatives, product features, distribution channels, price, and timing.

If you want to succeed for even a short term in a competitive marketplace, you must offer products or services that are aligned with customer needs and preferences, *and* that are positively differentiated from the products or services competitors offer. If you want to maintain success over the long haul, you must also continually adapt to changes in customer needs and competitive activities.

changes that can be driven by outside forces such as technology, economics, population shifts, weather patterns, or one of many other variables.

Success, then, is a matter of *informed* decision-making, with the requisite information coming from a variety of sources.

Since the 1950s, American companies have formalized the methods and systems they use to gather this information. A large and diverse market research industry has developed to build knowledge of existing and potential customers. A parallel competitive intelligence industry has developed to provide companies with knowledge of the strategies and activities of their competitors.

By and large, these industries operate separately from each other, and in many organizations the market research and competitive intelligence staffs are housed in different silos. But despite these barriers, the knowledge generated by these two functions is highly synergistic.

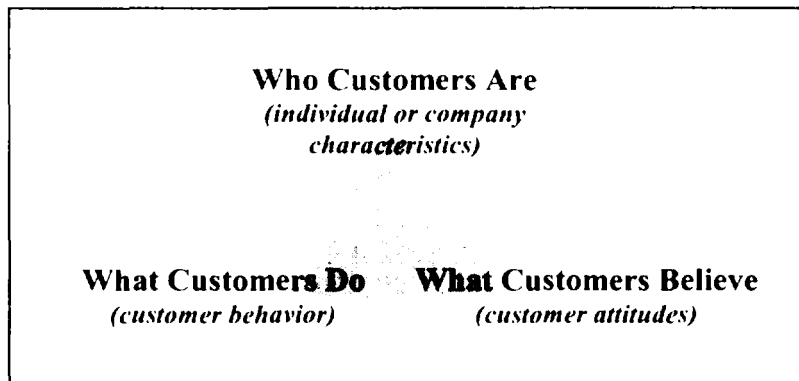
Let's look at each of these knowledge areas and then look at how their impact increases when the two areas are integrated.

## The Benefits of Customer Research

Take the customer out of the equation, and you don't have a business. Therefore, the overall benefit of customer research — knowing how to serve the customer — is fairly obvious. But let's look at some specific benefits of customer research.

To fully understand your customers (and potential customers), you must know:

- Who they are — demographics or company characteristics (also known as firmographics)
- What they do — their behavior
- What they believe — their attitudes and opinions



**Figure 1.** The Cornerstones of Customer Knowledge

### Who Customers Are

Customers' innate characteristics determine their needs, desires, and eventual purchasing behavior. In the energy field, for instance, we know that different types of businesses have very different needs — a ski resort will have winter heating needs; a water park will need electricity during peak summer hours; a restaurant's needs will vary not by season, but by time of day. Segmenting the

customer base by key characteristics allows you to tailor services to customers' varying needs, and to customize marketing efforts by demographic or firmographic categories.

## **What Customers Do**

Tied in with "who customers are" is "what customers do." Some customers are extremely loyal to their service providers; other switch providers frequently and with very little provocation. A study recently released by the Yankee Group, for instance, found a high correlation between energy customers' long-distance providers and their loyalty to incumbent energy utilities: MCI and Sprint customers were more willing than AT&T customers to entertain the idea of switching energy providers. This kind of behavioral measure can be highly predictive, and thus very valuable to a gas or electricity marketer seeking to target customers who are open to new offers.

## **What Customers Believe**

Often, especially in fields that are engineering-dependent, research focuses primarily on "who customers are" and "what customers do." In a regulated monopoly environment, this information may be sufficient to allow an organization to develop an effective infrastructure and project sales volume. The "what customers believe" part of the equation is seen as fuzzy or nonessential.

In a competitive environment, however, customers can choose how they will behave: what purchasing decisions they will make. They make these decisions on the basis of their beliefs: their ideas of how well various providers will serve their needs. These beliefs may be based on fact, on hearsay, or on baseless prejudice, but they will nearly always precede and drive the buying decision.

Customer satisfaction measurement (CSM) is the form of attitudinal research most commonly performed by energy companies. It's useful for understanding your organization's relationships with its current customers, and can be combined with behavioral measures (such as past instances of changing service providers) to identify vulnerable segments of your customer base.

But the real value of attitudinal research comes into focus when you go beyond measuring your current customer base. Your market includes two other kinds of customers: past customers (those who purchased from you once, but no longer do) and potential customers (those who have never purchased from you). Past<sup>1</sup> and potential customers may harbor attitudes toward your organization *and* your competitors—attitudes that can be compared to provide a detailed picture of each provider's perceived strengths, weaknesses, and overall brand image. In turn, this picture will indicate which providers are likely to gain or lose market share in the near future—for today's attitudes are likely to lead to tomorrow's purchasing behavior.

## **The Benefits of Competitive Intelligence**

Centuries ago, a wise man advised, "Hold your friends close, and your enemies closer." This ancient CI expert was simply pointing out that the more you know about your competitors' strengths, weaknesses, goals, and activities, the better able you will be to control your success and to react to market events outside your control.

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<sup>1</sup> It should be noted that many regulated utilities do not maintain information on past customers, since customers typically leave the system by moving out of the market rather than by switching providers. In a competitive marketplace, companies are well advised to maintain records on past customers for analytical purposes.



- *Determine which markets to enter or exit.* An analysis of competitive forces will give you guidance on the potential a given market or industry has for your company.
- *Avoid being blindsided by a competitor's move.* The earlier you become aware of a new product launch, a new pricing policy, or a new ad campaign, the earlier you can make a well-considered, effective countermove.

## Bringing Customer and Competitor Knowledge Together

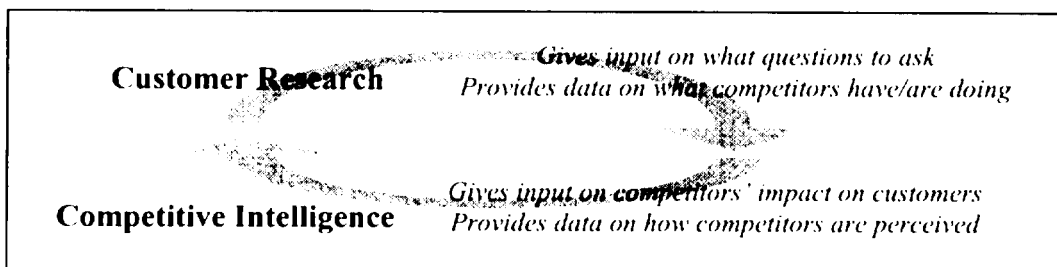
It's clear that customer knowledge and competitor knowledge bring extremely useful, but different, benefits to an organization. So what's to be gained by integrating these two functions?

Remember the story about the blind men who describing an elephant? One touched the elephant's leg and likened it to a tree. Another ran his hand along the trunk and declared the elephant is more like a huge snake. A third ran into its side and concluded that an elephant is like a large wall. Your competitive marketplace — another living organism — can be viewed from different perspectives too. Viewing the market from any single perspective can lead to erroneous decisions.

For example, if you understand your customers' needs but do not monitor your competitors' products and activities, you may introduce mistimed, "me too" products. If you don't have a very clear picture of your competitors' distribution channels, alliances, and advertising budgets, your new product may fail even though it's technically superior. Technically driven companies are particularly prone to this pitfall — it's exactly what happened to Sony's Beta videotape format.

By the same token, if you study your competitors, but do not know how customers perceive them, you may waste resources competing against a company already on its way down, or fail to notice one that's gathering momentum. MarketPower recently completed a research project to evaluate a gas pilot program. The company we represent has two primary competitors: one with a large share of the market, the other with a tiny market share. Based on what customers tell us, however, the large competitor has confused and disappointed many of its customers, while the small competitor has carved out a distinct image and has lived up to that image with the customer base it has acquired. Which of these competitors is the one to watch? And which one would we be watching if we had no knowledge of customer attitudes and were considering market share only?

Although we may call these two disciplines *customer* research and *competitive* intelligence, the fact is that *both* disciplines produce useful information about *both* customers and competitors. Customer research tells you which of your competitors customers are actually aware of, and what your customers believe about your competitors. This is just as important as — perhaps more important than — what your competitors are actually doing and saying. Competitive intelligence lets you understand the array of alternatives your customers are or will be exposed to, and the resources competitors can bring to bear to influence customers' buying decisions.



**Figure 3.** Customer and competitor knowledge: a symbiotic relationship

One discipline lets you understand what's going on inside your customers' heads; the other lets you know what's going on in your customers' environment.

## **Cultural Challenges to Integrating Customer Research and CI**

From the practical perspective, it must be understood that these two disciplines are different not only in their output, but also in the way they function.

Market research practitioners take both qualitative and quantitative approaches, but draw their strongest conclusions from quantitative data. In designing their research instruments and collecting data, they follow many strict rules to avoid contaminating or influencing the data. The labor of data collection and processing is often spread out among many people.

CI professionals take a much more fluid approach to the gathering of data, and their work is almost always qualitative in nature. They dig for or coax information from a small number of sources, and reach conclusions intuitively. Data collection is carried out by a few people.

The work of these two disciplines moves at different paces and involves different types of human and information resources. Personalities often differ, too. It is difficult for an individual to pursue both disciplines; it is difficult for a department specializing in one discipline to successfully house the other.

Yet, to maximize the organization's chances of success, customer research and CI must contribute to and draw from each other to produce the following results:

- Knowledge that is gathered only once, but shared by all who will benefit
- Knowledge outside one's own discipline that sharpens focus and leads to more strategic thinking

## **One Way to Integrate Customer Research and CI**

Customer and competitive knowledge, along with an understanding of industry forces and your organization's own capabilities, should provide the foundation for every important business decision. This requires that the organization develop an infrastructure that supports the integration effort, as well as processes for integrating knowledge on an ongoing basis.

### **An Infrastructure to Support Integration**

Often, organizations place research in the marketing department, and CI either at the rarefied corporate level or well below that, as a support function in the sales department. At the operational level, however, customer research and CI should contribute to both strategic planning and marketing units.

If these functions are separated into different "silos" in your organization, you might consider establishing a free-standing unit – call it market intelligence, market analysis, or market knowledge – to serve multiple internal clients. This group should include customer research and CI staff, as well as any other staff currently performing other forms of market or industry analysis.

It is not unusual for large organizations to conduct several studies on the same topic and hoard the findings within individual business units; the structure just described allows for greater control over the deployment of resources – knowledge gathered only once, but shared by all who will benefit. It also encourages a cross-disciplinary approach to business issues, allowing staff members to share

priorities and goals and learn from each other knowledge outside one's own discipline that sharpens focus and leads to more strategic thinking.

One cautionary note: because an organization's sales representatives learn so much through their customer contacts, it is very important to maintain strong ties with sales. It may also be appropriate to maintain a CI specialist within sales to handle the department's tactical needs and serve as a liaison with the market intelligence unit.

### The Mission of the Market Intelligence Unit

The overall goal of the market intelligence unit is to improve strategic and tactical decision-making by raising the level of market knowledge the organization uses to guide its decision-making.

Because it's the nature of organizations to develop in erratic ways, existing levels of market intelligence in different business units or knowledge areas may vary widely in sophistication.

These levels, increasing in sophistication, can be classified as:

Level	Characteristics	Benefits
<b>Level 1: The Basics</b>	Basic understanding of the current market: defining core business, customer base size and characteristics, nature of competition, overall market, and market trends.	Allows a business to function productively at a basic level.
<b>Level 2: Understanding Value</b>	Understanding of current market drivers, the company's status with current customer base, and company's value proposition relative to competitors.	Shows how to meet key customer needs communicate effectively with prospective customers.
<b>Level 3: Strategic Positioning</b>	Understanding of customer motivations, their relative importance, and their specific impact on profitability. Understanding of competitors' strategies and resources	Allows a business to align products/services/messages more closely to customer needs and to build distinctive identity.
<b>Level 4: Forward Focused</b>	Sophisticated understanding of how the market and competitive environment may evolve in the near future (five years or less), with strategies for capitalizing on potential changes.	Allows a business to stay on top through innovation and diversification.
<b>Level 5: Advanced Strategy</b>	In-depth understanding of specific market segments, strategic control points, and the competitive and environmental forces that may affect the market in the long term (more than five years ahead).	Allows a business to customize products/services to multiple target markets the most profitable markets and to blunt the efforts of competitors.

**Figure 4.** The Levels of Market Intelligence

The unit should continually work toward its overall goal of expanding and deepening the knowledge base, and sharing knowledge with others in the organization who may need it to make effective decisions. Knowledge is most likely to be shared and put to productive use if representatives of the unit are regularly involved in strategic planning and marketing efforts and the implications of their work are thoroughly discussed.

## An Integrated Process for Addressing Specific Business Problems

A favorite axiom of computer programmers is, “Garbage in, garbage out.” This saying is applicable to the market analysis process too; we have found that the key to efficient and powerful integration is nothing more than Stephen Covey’s tenet: “Begin with the end in mind.”

When the market intelligence unit is presented with any business problem strategic or tactical a cross-disciplinary team can be brought together to address it. Armed with a thorough understanding of the issue at hand and the decision process, this team’s first step is to identify and prioritize the questions that must be answered to guide the decisions. To begin this process, the team members will ask:

- What are the key questions that need to be addressed?
- What is the single most important question?
- What hypotheses do the parties involved have, and how must they be tested?
- What aspects of the issue can and cannot be changed?
- Which questions are a) absolutely essential to answer, b) important, but of critical, and c) nice to know if we can get it?

To increase efficiency, these questions will be held up against the existing body of knowledge. The team might use a checklist such as the one depicted below to quickly identify the knowledge areas it needs to address:

<i>How do each of the following knowledge areas impact the business decision at hand?</i>	<b>Relevant</b>	<b>Not relevant</b>	<b>Already addressed</b>
<b>Customer Knowledge</b>			
Customer needs? (e.g., identification, priority, intensity, etc.)			
Customer attitudes? (e.g., likes, dislikes, preferences, etc.)			
Customer awareness? (e.g., product/service category awareness, brand awareness, advertising awareness, competitor awareness, etc.)			
Customer behavior? (e.g., purchase behavior, decision-making process, etc.)			
Customer demographics? (e.g., income, age, region, education, etc.)			
<b>Competitor Knowledge</b>			
Actions of current competitors? (e.g., pricing, promotion, distribution, advertising, product/service introductions, features, etc.)			
Strength of competitors’ financial resources?			
Anticipated competitor responses?			
Emergence of non-traditional competitors?			
<b>Company Knowledge</b>			
Company capabilities?			
Strength of company’s financial resources?			
Company strategic goals?			
<b>Industry Knowledge</b>			
Economic trends?			
Market growth?			
Demographic trends?			
Economic trends?			
Social trends?			
Current or proposed laws/regulations?			
Technology trends?			

**Figure 5.** Sample checklist for market analysis project planning



This process yields a shared understanding of the team's informational goals, and ensures that no major factor in the decision will be overlooked. Now the team will develop an information collection and analysis plan that outlines:

- Detailed informational requirements
- Research activities and information resources
- Analytical approaches
- Specific individual responsibilities and timetables

Exactly which approaches the team takes to address the business problem will depend on the nature of the problem there are many forms of analysis, for instance, and this approach allows research and CI professionals to select the most appropriate tools for the job. The team members will collect information separately, analyze and interpret it on their own, then come together to integrate their findings and discuss their overall implications for decision-making.

## **Conclusion**

Aristotle Onassis no slouch in business competition said, "The secret of business is to know something nobody else knows." You discover this valuable knowledge by leaving no stone unturned. You keep close watch over your customers *and* your competitors; you also look outward, at external forces that might affect your business environment.

To achieve maximum benefit from these activities, you carefully coordinate them. You encourage discussion; you encourage sharing. You encourage market intelligence professionals to define their goals and work toward them in an organized manner.

But Onassis may have stopped short in his pronouncement. It's not unique knowledge that leads to business success it's how you act on that unique knowledge. Integrated market analysis will provide greater insight and a more complete perspective. In the end, however, its value will be proven in sounder, faster, and more effective decisions.