

Corporate covertness

More firms use 'CI' analysts to gather data on rivals, but it's mostly hush-hush

By Jon Van | Tribune staff reporter
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Kurt Neubauer doesn't wear disguises or sift through a company's trash hunting for secret information. But he is involved in corporate espionage.

Rather than calling himself a spy, however, Neubauer's job title is competitive intelligence analyst. Everything he does is legal and ethical, he says, and his services increasingly are sought by mid-size and large firms that spend an estimated \$1 billion a year for inside dope, a figure predicted to grow tenfold by 2012.

Competitive intelligence analysts like Neubauer collect inside information by simply talking to people who work for or are associated with companies that his clients want to learn more about. At the top of the list, firms want to know what products or services are in their rivals' pipelines, so that they can plan countermoves.

Learning a few years ago that a competitor planned to launch a new line of men's personal care products to coincide with the Super Bowl, one client locked up as much retail counter space as possible for its products to throw a curve at its rival.

Neubauer's best sources are salespeople, he says, because they like to talk. One mission was to learn how many salespeople were employed by a target company, their sales strategies and how much they earned. Calling one salesman's home number, Neubauer got the wife instead. She was unhappy with her husband's employer, knew quite a bit about the company and was eager to talk.

"It's not a typical source we would go after," said Neubauer. "I stumbled upon her."

Neubauer, who works for Proactive Worldwide, based in Rolling Meadows, said he told the disgruntled, loose-lipped wife his real name and that of his employer, saying he sought information about sales practices. He didn't identify his client, a rival of the husband's employer.

Neubauer used the wife's information as a starting point for conversations with people who worked directly for the company.

"You're more likely to get a response to 'I hear you've got about 300 sales reps, is that right?'

instead of asking how many people they have," he said.

Other than sales people, engineers can also be good sources if you can understand the terminology they use, Neubauer said. But lawyers or accountants? Forget about it.

"They're used to protecting information," he said. "It's best to avoid talking to them. I won't call them."

The Society of Competitive Intelligence Professionals estimates that among its 3,300 members, only one-quarter work full time at CI, said John Fiegel, the group's interim executive director.

SCIP has a code of ethics and regularly holds educational forums to help practitioners improve their techniques, Fiegel said.

"We're looking at pulling together a body of knowledge and credentialing," he said.

In a 2006 Web survey of 141 companies, Leonard Fuld, a Boston-based consultant specializing in CI, found that most companies' efforts were fairly new and got minimum funding. Fuld calls such fledgling programs "stick fetchers" because while they may gather some useful information, it usually falls short of supplying important aids to strategic planning.

But Fuld predicts that CI will become more widely embraced, as essential as market research, its much larger big brother. From his survey, Fuld estimates the top 1,000 U.S. companies now spend about \$1 billion a year on CI and will raise that to \$10 billion over the next five years.

"When used properly, CI can help you win some more market share," said Fuld. "It's not about vanquishing a rival. It's about improving performance at the margins."

Drug companies aggressive

Among the most aggressive users of competitive intelligence are pharmaceutical firms.

Most of the competitive intelligence gathering occurs at trade shows and scientific meetings through such benign techniques as just hanging out at a rival firm's trade show exhibit booth, listening to conversations and jotting down useful tidbits, said Dr. Douglas Melnick, a California physician.

Melnick, who once gathered information for a pharmaceutical firm, described his experiences on a YouTube video posted last month.

As part of his intelligence gathering, he chatted up researchers presenting reports on drug studies ostensibly because they wouldn't be as guarded about keeping information private.

"Perhaps a doctor was hired by the company to do a study," Melnick said in his video. "That doctor is not a sophisticated marketing person."

However, certain test information that a researcher would know can be very valuable to a

competitor.

Craig McHenry, director of competitor insights for Wyeth, the Philadelphia-based pharmaceutical firm, said the way clinical tests are structured provides clues about how a drugmaker may position a new product.

"We look at which patients are included in a trial and which are excluded," McHenry said. "That can suggest the indications for the product they hope to get on their label."

Such information is used to play war games where Wyeth executives come up with plans to counter various possible market moves by rivals, he said.

"It's like pilots using a simulator to fly over an enemy battlefield to look where the anti-aircraft guns are," McHenry said. "Even if the guns are in different places when they do the actual flight, the simulator gives them helpful experience."

Wyeth sometimes notices competitors watching them, he said.

"It's almost entertaining to watch how this goes back and forth, like a chess game with defined rules," he said. "We try to think three or four moves ahead."

While most practitioners refer to what they do as competitive intelligence, the practice is often referred to as part of strategic planning or some other vague term.

"Most CEOs know the kind of intelligence they need to help make important decisions," Fuld said, "but that often doesn't get communicated down the line."

CI efforts may be part of marketing departments, he said, even though market research and CI are quite different.

"Market research is quantitative," Fuld said. "You may need a minimum of 150 interviews to get good information. CI is qualitative. There's no magic number of interviews, you just need to do enough to get the information you need."

Getting solid information about how extensively CI is employed is difficult because most companies are secretive about what they do, said Craig Fleisher, immediate past president of SCIP and a professor of management at the University of Windsor in Canada.

"Virtually every decent-size company does some," Fleisher said. "Some call it competitive intelligence. Most call it something else."

Government ways borrowed

Commercial CI traces back 20 or 30 years and was built on practices borrowed from other fields, especially government intelligence agencies, Fleisher said. These roots in spying may explain why many companies avoid talking about their CI exploits, he said, but another consideration is competitive advantage.

"You don't want to advertise that you are looking at competitors," Fleisher said. "Even though

you're doing nothing wrong, it gives away your strategy and may cause your rivals to cover their tracks more rigorously than they would otherwise."

Companies that don't pursue CI are vulnerable to competitors that do, said Gary Maag, chief executive of Proactive Worldwide, the Rolling Meadows-based consultancy that he founded with David Kalinowski, the firm's president, a dozen years ago.

"There has been this corporate espionage feel, this spy mystique that has lingered and tainted the whole industry," Maag said. "But now organizations are finding this isn't a luxury. It's a necessity. When your competitors have this intelligence and you don't, you won't survive long."

Press agency with headline-grabbing stunts was once seen as unsavory for a serious business, but it has matured into public relations, a field embraced by just about every business of any size, Kalinowski said. Market research is also a staple for most businesses.

"We see this same thing happening to CI," he said.

Still, there are the occasional high-profile cases of underhanded corporate spying.

The most recent such case involved private investigators lying to obtain the phone records of Hewlett-Packard board members to determine who was leaking information to the press.

Miscommunication likely was why HP board members' phone records were obtained using subterfuge, said Fuld, the Boston consultant.

"The head of the board asked her security department to look into the leaks, and they hired an outside private investigator who in turn hired another investigator," Fuld said. "The original intentions got translated and twisted to the point where they abused ethics."

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