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Commercial Intelligence

Who knows what and about whom?

Commercial intelligence or the lack of it can have a major influence on driving behaviour in supply markets at all levels. Accurate and appropriate commercial intelligence breeds confidence and conviction of purpose, allowing an organisation to approach a supply market and the players within it with confidence and clarity of purpose. Conversely a lack of commercial intelligence manifests itself in uncertainty, trepidation, a mistrust of the market and poor decision making.

Recent events in the sub prime mortgage market in the USA have evidenced a lack of commercial intelligence and the impact that this can have. Banks and other financial institutions have lacked the commercial intelligence with regard to who in the market has exposure and at what level to bad debts resulting from the crisis in the sub prime market. The resulting uncertainty and lack of confidence has led to extreme caution, putting the brakes on the lending market. Banks are reluctant to lend to other banks because they do not know the financial standing of the other party. Where they are prepared to loan it is at a higher rate of interest than before. What has happened in the USA has had a knock on effect around the world leaving everyone asking the question - who else is involved in the sub prime crisis? The problem is no-one really knows. So, credit becomes harder and more expensive to come by for everyone from huge corporations down to the consumer in the high street, panic and uncertainty sets in. In the UK the crisis surrounding Northern Rock with savers queuing in the streets to withdraw their cash leading to the first run on a UK bank since 1866.

Purchasing & supply management professionals use commercial intelligence to inform sourcing decisions, prepare for negotiations, to act as an informed client and to seek out innovation in the market place. However there is often a feast or famine approach. Sometimes key decisions and key supplier relationships are managed with little

underpinning by commercial intelligence, at the other extreme the gathering of commercial intelligence can reach a point where it exists for its own purpose with little focus on the activity that it is supposed to be supporting.

It is safe to make the assumption that suppliers are taking advantage of commercial intelligence and therefore it is key that Procurement uses commercial intelligence effectively to support purchasing strategy and make informed and timely decisions.

Much commercial intelligence is gathered informally by organisations employees. Any employee who visits a trade show, reads a newspaper or talks to friends within an industry is researching commercial intelligence. However many procurement functions are recognising that a more structured approach to the gathering and application of commercial intelligence is required to realise the potential benefits of commercial intelligence.

Commercial intelligence should not be confused with industrial espionage. Commercial intelligence is derived from the vast source of open source information available and is obtained in an ethical manner, unlike industrial espionage.

What commercial intelligence could we use?

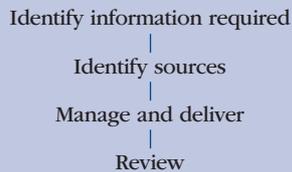
Commercial intelligence that will support a procurement function will vary from organisation to organisation. It can include:

- information on a supplier's financial performance
- political developments that impact on a market place
- economic indicators
- new product development
- currency market movements and trends
- commodity price movements and trends
- competitor performance
- new market entrants

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Structured approach



Identifying the information required

There is a vast amount of commercial information available today and access to it is made increasingly easier by the World Wide Web. Collecting information can become almost addictive however too much unfocused information will be unwieldy, difficult to apply and lead to “not being able to see the wood for the trees”. Just to acquire information and to “leave it on the shelf” is a waste of the time, money and effort taken to collect it. There must be clarity as to why the information is being collected and the benefit that it can bring.

Question: can someone use this information to help make better decisions to benefit of the organisation?

Identifying the sources.

There is a proliferation of sources including newspapers, trade journals, peers in other organisations, published accounts and organisations who specialise in supplying commercial intelligence. Most sources of news media have huge searchable databases that allow access to reports on companies, supply markets and the organisations and events that influence their behaviour. To identify the most appropriate sources it is beneficial to consider: how recent is the information provided; how relevant is the information; how credible is the information and what is the cost of obtaining the information. Organisations can either collect the information or pay for a third party to supply. In practice many organisations will opt for a combination of the two.

Question: Is the information credible?

Managing and delivering.

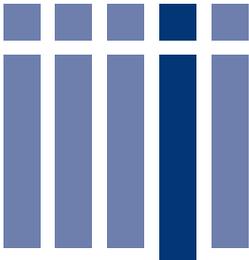
Once we have our information we need to decide how it will be stored, analysed, turned into useful intelligence and delivered to the user. One obstacle that many purchasing & supply professionals face is that what information does exist is stored in several different places within the organisation. This is time consuming in terms of being able to find, use and maintain the information. Additionally the information may be held in different formats making it difficult to analyse and manipulate. Information held by individuals may be lost when they leave.

One solution is to have a single commercial intelligence platform that is tailored to the needs of the procurement department with consistent standards for:

- storing the information
- updating the information
- collating, integrating with other information and analysing the information to turn it into useful intelligence
- targeting intelligence to the correct people with the organisation

Ideally the solution put in place should be simple, repeatable and cost effective.

Speed of delivery of intelligence can be critical. Generally the quicker that appropriate intelligence is delivered to the user the more opportunity there will be to take advantage of the information. The optimum speed of delivery will vary from organisation to organisation and speed needs to be balanced against cost and opportunity. In general, costs increase with the speed of information delivery.



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Question: will the intelligence reach the decision maker in a usable format and at an appropriate time to gain benefit?

Review

The value add of the functions competitive intelligence should be evaluated and if found to be lacking the process should be reviewed and amended. Information should not be collected for its own sake.

Question: how can we increase the value of our commercial intelligence?

Conclusion

Commercial intelligence is a powerful tool for the purchasing & supply management professional when the information is appropriate, useable and timely. It should be approached in a structured way to gain maximum benefit rather than left to ad-hoc gathering and retention by individuals.

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