Chapter 24

Indications and Warning Analysis
Ch24. Indications and Warning

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Short Description

• To anticipate and prevent potentially significant hostile marketplace movements or surprises, I&W analysts try to connect clues gleaned from what could be massive quantities of complex and evolving data.

• Done well, I&W analysis acts as an alarm to decision makers and reduces the incidence of surprise, uncertainty, and risk.
Background

- Used for decades by military organizations.
- Many indicator-based lessons learned in Cold War.
- Many firms today have systematic methods for monitoring their environment.
- A very important facet of the environmental monitoring, tracking, and analysis process is the indicator and warning analysis system.
- Although I&W analysis initially had more of a premonitory focus, in recent years it’s focus has been more on serving defensive purposes.
- When it comes to applying this military application to commerce, the key issues are less easily defined.
Strategic Rationale and Implications

• Modern marketplace is characterized by many highly capable competitors.
• Time becomes an increasingly important source of competitive advantage.
• ‘Quick response’ decision making is difficult and necessary.
• I&W analysis ensures uniformity in the analysis of rivals and the environment.
• A firm’s strategy must factor in change of a type and speed that has not been seen before.
• I&W analysis helps decision makers to be proactive.
Strengths and Advantages

- I&W analysis forces analysts and decision makers to mutually set priorities.
- I&W analysis can reduce the waste of intelligence resources.
- Very powerful when combined with other tracking techniques.
- Encourages proactive mindset.
- Value lies in both the content and process.
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Weaknesses and Limitations

• There are a number of recurring problems found in I&W analysis:
  - Inadequate recognition of emerging threats.
  - A consequent inadequate collection against threats.
  - Breakdown of information and communication flows.
  - Failure by analysts to understand rivals and their intentions.
  - Failure by decision makers to give legitimacy to analysts.
  - Overwhelmed analysts and systems.
  - Vulnerability to red herrings, deception, and other Trojan horses used by rivals.
Weaknesses and Limitations

- Conservative mindsets of analyst or decision maker can weaken I&W analysis (Swanson, 2005).
- I&W analysis is more important in some industries than others.
- The huge amount of data available on the WWW has been problematic for I&W analysis.
- Effective I&W systems can take many years to develop.
- Implementation can be problematic for smaller firms.
Process for Applying the Technique

• **Step 1**: Establish the set of indicators
  - Work with all the decision makers to identify specific actions that could attack.
  - Indicators will consist of data or information pointing to those actions.
  - They are measurable, observable, collectible.
  - Signal progression towards a significant competitive action by a rival.
  - Some common indicators include those displayed on next slide.
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**Process for Applying the Technique**

<table>
<thead>
<tr>
<th>Filing of shareholder lawsuits</th>
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<td>Wall Street analysts’ expectations of a merger candidate’s profitability</td>
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<td>Public statements by public officials about a potential firm action</td>
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<td>Rumblings of union dissatisfaction shown in ‘sick outs’ and potential strike action</td>
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<td>Increase in insider shareholding transactions</td>
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<td>Sudden and unexpected departures of key executives</td>
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<td>Suddenly increasing ‘help wanted’ ads in specific mission-critical activity areas</td>
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<td>Unusual investments in similarly positioned early stage ventures</td>
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<td>Aggressive and unusual asset sales</td>
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<td>Noticeably stepped up lobbying activity in state or national capitals</td>
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Process for Applying the Technique

• Step 1 Cont’d
  - Important to remain unbiased.
  - Study the past actions of competitors.
  - Historiographical analysis methods can also be useful.
  - Key is to determine the pattern of activity that rivals use that signals a major offensive by them.
  - At the conclusion of this step, you should have determined a set of indications for the rival.
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Process for Applying the Technique

- **Step 2:** Establish meaning behind indicators
  - Generate insight about the indicators and what they portend for the firm.
    - Motivation
    - Opportunity
    - Capabilities
    - Method
    - Imminence
  - Normal progression reminiscent of life cycle concept.
Process for Applying the Technique

- **Step 3:** Validate and rank indicators against threshold levels to determine when warnings need to be issued.
  - Ideally, a prediction (the warning) should:
    - Indicate the possible causes of the observed information and rank those causes in order of confidence;
    - Based on those indications, predict other observable mechanisms and consequences associated with those causes; and
    - Provide the means to warn decision makers and other individuals in the firm of the actions prior to those consequences being manifested.
  - **Remember:** A significant number of indicators are required before the I&W system produces a warning.
Process for Applying the Technique

Step 3 Cont’d
- As such, there are a number of questions that you must consider in validating the series of indicators you have identified.
  - Can you trust the indicator?
  - Is it a signal of a pending event or noise?
  - Who observed the indicator or communicated of its existence? Are these people trustworthy sources?
  - Did their observation of the indicators come under stressed or natural circumstances?
- Qualify the indication on a continuum.
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Process for Applying the Technique

• Step 3 Cont’d
  - The indications also need to be scored.
  - Need a high quality standard for warnings.
  - Once a warning is issued, it is provided to decision makers as an estimate of a rival’s ability to win a marketplace battle.
Process for Applying the Technique

- **Step 4:** Determine and recommend appropriate firm responses to the warning.
  - You can alert decision makers to:
    - The analyzed facts.
    - Their competitive consequences.
    - Potential series of alternative actions, along with well thought out scenarios of action and reaction.
    - Cause and effect activities that give the decision maker a keener insight into what might result in the best outcome.
  - You must make sure that your recommendations allow decision makers and relevant firm members the necessary maneuvering room.
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Summary

• I&Ws are based on a competitive rival’s likely preparations for an assault or attack in the marketplace.
• Conventional I&Ws include several identifiable events:
  - Purchasing of media.
  - Hiring of specialized employees.
  - New product information being distributed.
  - Significant changes in communications patterns.
• Once observed, these events are then referred to as ‘indications’.
• You determine how imminent the threat is by the totality of indications and issue warnings to your decision makers at various threshold levels.
Summary

- I&W is normally a methodology restricted to the strategic and operational levels of competition.
- The new competitive environment requires the development of effective and efficient I&W systems that can separate signals from the noise.
- They require analysts to work actively and regularly with decision makers.
- Finally, I&W analysis is not an exact science — predictions can never be issued by analysts without some uncertainty.
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- **FAROUT Summary**

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Related Tools and Techniques

- Blindspot Analysis
- Early Warning Analysis
- Industry Analysis
- Issue Analysis
- S-Curve Analysis
- Scenario Analysis
- STEEP Analysis
- War Gaming
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For More About Indications and Warnings and 23 Other Useful Analysis Methods, see:

Fleisher, Craig S. and Babette E. Bensoussan

Business and Competitive Analysis: Effective Application of New and Classic Methods

Upper Saddle River, NJ
2007