

Chapter 24

Indications and Warning Analysis



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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.



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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.



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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.



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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.



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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.



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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

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



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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.



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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.



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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.



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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.



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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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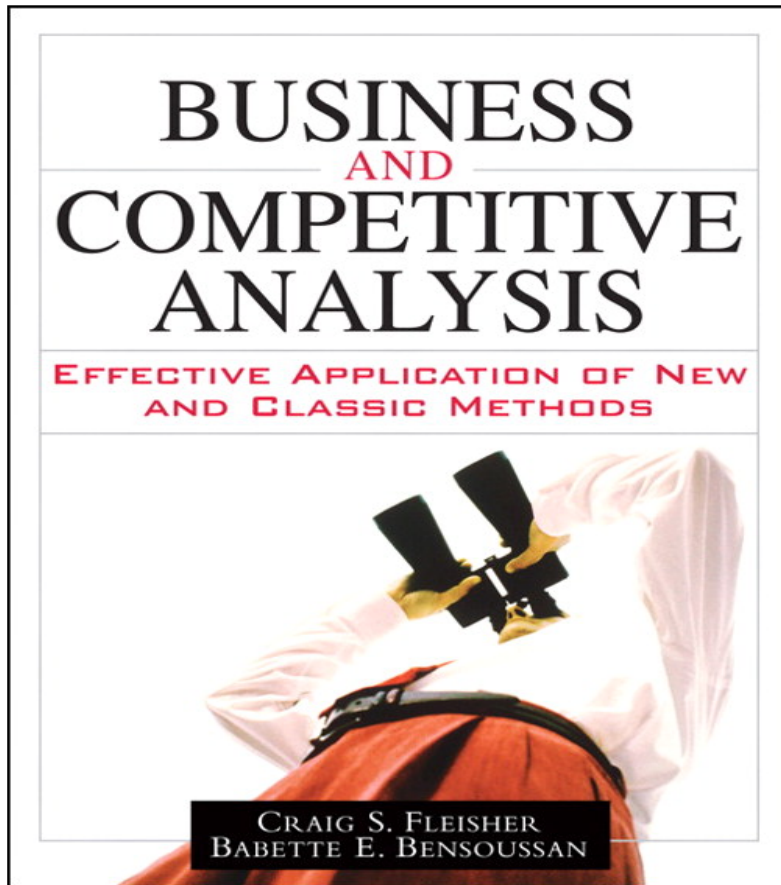


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Related Tools and Techniques

- 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

FT Press
FINANCIAL TIMES

Upper Saddle River, NJ
2007