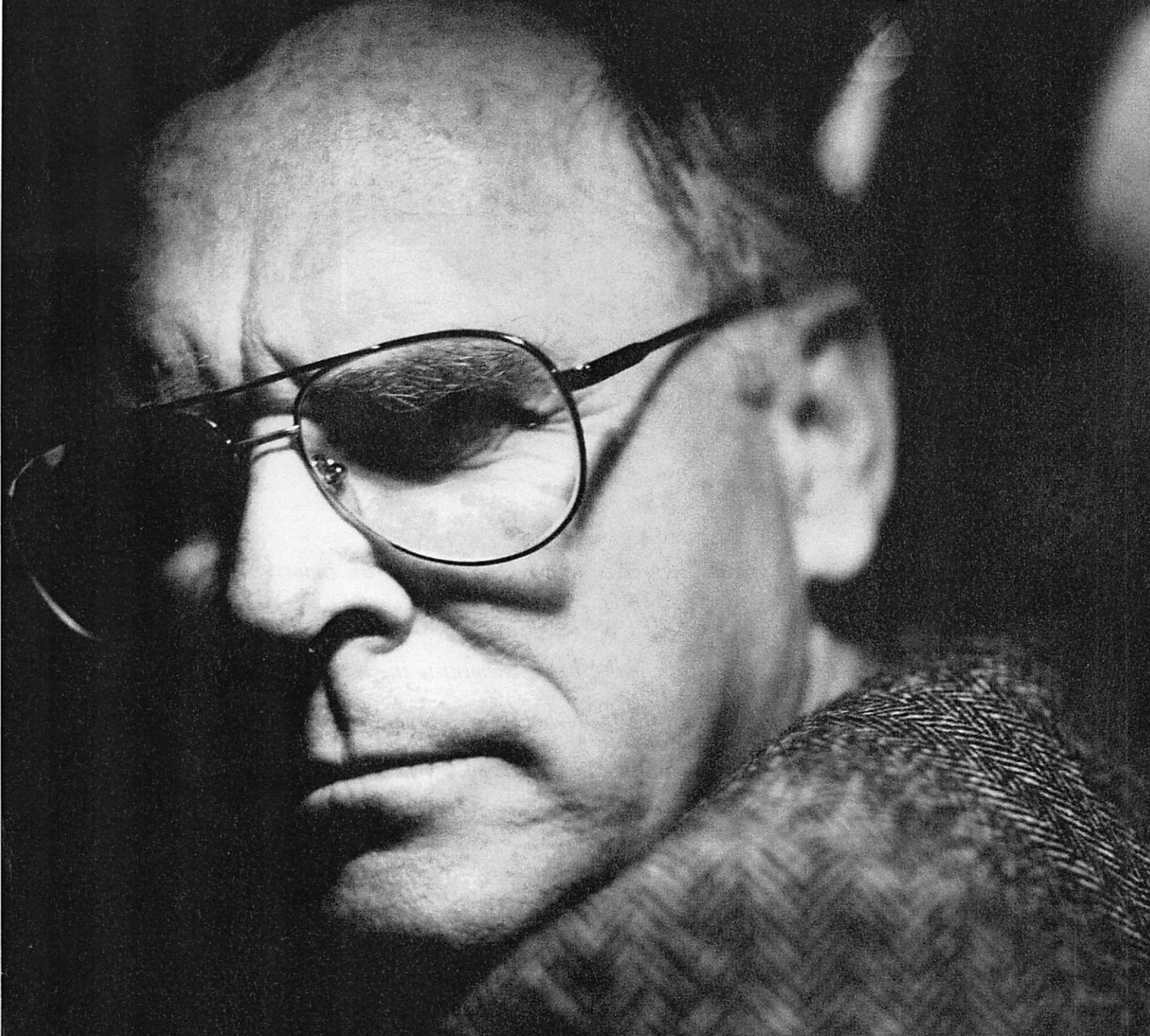


Your competitor is snooping on you. So what's wrong with that?



# I SPY

PHOTOGRAPHS BY MARC ASININ / SABA

A DOZEN STUDENTS descend on Disney's Paradise Island in Orlando, Fla. It's a balmy night in February and they are up to no good. They have been assigned to accost strangers and extract secrets from them.

Ava Youngblood targets a Philadelphia landscaper. Within minutes she's discovered that he makes \$1,500 a week, has lost his savings in a wrenching divorce and owns a \$150,000 house.

Another student collars an Arkansas businessman, quickly learning that he keeps at least \$1,000 in his checking account. The student considers jotting down the number of the businessman's American Express card.

A school for blackmailers and scam artists? Nope. These are corporate employees taking a course paid for by their bosses. Their teachers are William DeGenaro, who used to work in counterintelligence for the U.S. government, and John Nolan, who spent part of a 22-year military intelligence career recruiting and training spies in Germany, Cambodia and Vietnam.

The adjunct faculty at the Centre for Operational Business Intelligence includes John Quinn, who worked for the CIA as a Tokyo-based spy, and Lieutenant General (retired) James Williams, former director of the U.S. Defense Intelligence Agency.

The students are here to learn how to help their employers gather "competitive intelligence." That intelligence might concern the design and price of a competitor's upcoming product, the benefits of acquiring a rival business or the dangers of entering a new market.

If business is war, companies need intelligence about the other side. That's the premise on which the school is run. The course notes reinforce this warrior mentality with quotations from John Le Carré, and from Sun Tzu's *The Art of War*: "Spies are a most important element in war because upon them depends an army's ability to move."

The school's most recent course was a five-day, \$5,875 seminar at a hotel

By William Green near Orlando. Attendees included Larry Hamilton, manager of global business intelligence at Dow Corning; Ava Youngblood, manager of business intelligence at Amoco; and Philip Perkins, director of knowledge management at Pillsbury.

There would have been more attendees from well-known companies, but half a dozen firms dropped out of the school when they heard that *FORBES* would be there. Gathering competitive intelligence, it seems, is not yet considered nice.

The course, says instructor Nolan, teaches students how to play on the "exploitable motivations" of those you target. He teaches that salespeople, whose success depends on imparting persuasive information, are particularly susceptible to elicitation techniques. Disgruntled factory workers can be induced to whine about company management and to reveal valuable tidbits. Lawyers and executives—supposedly tougher—can be vulnerable, says Nolan, because they "need you to know how clever they are."

**The best corporate spooks appear innocent and friendly—and know when to play dumb.**

A good spy is a bit of an actor, Nolan preaches. The best elicitors of information appear innocent and friendly. They know how to suspend the needs of their own ego, resisting the temptation to reveal their knowledge and skill. They play dumb, therefore, when it suits their needs. David Sindel, a student in the class, has collect-

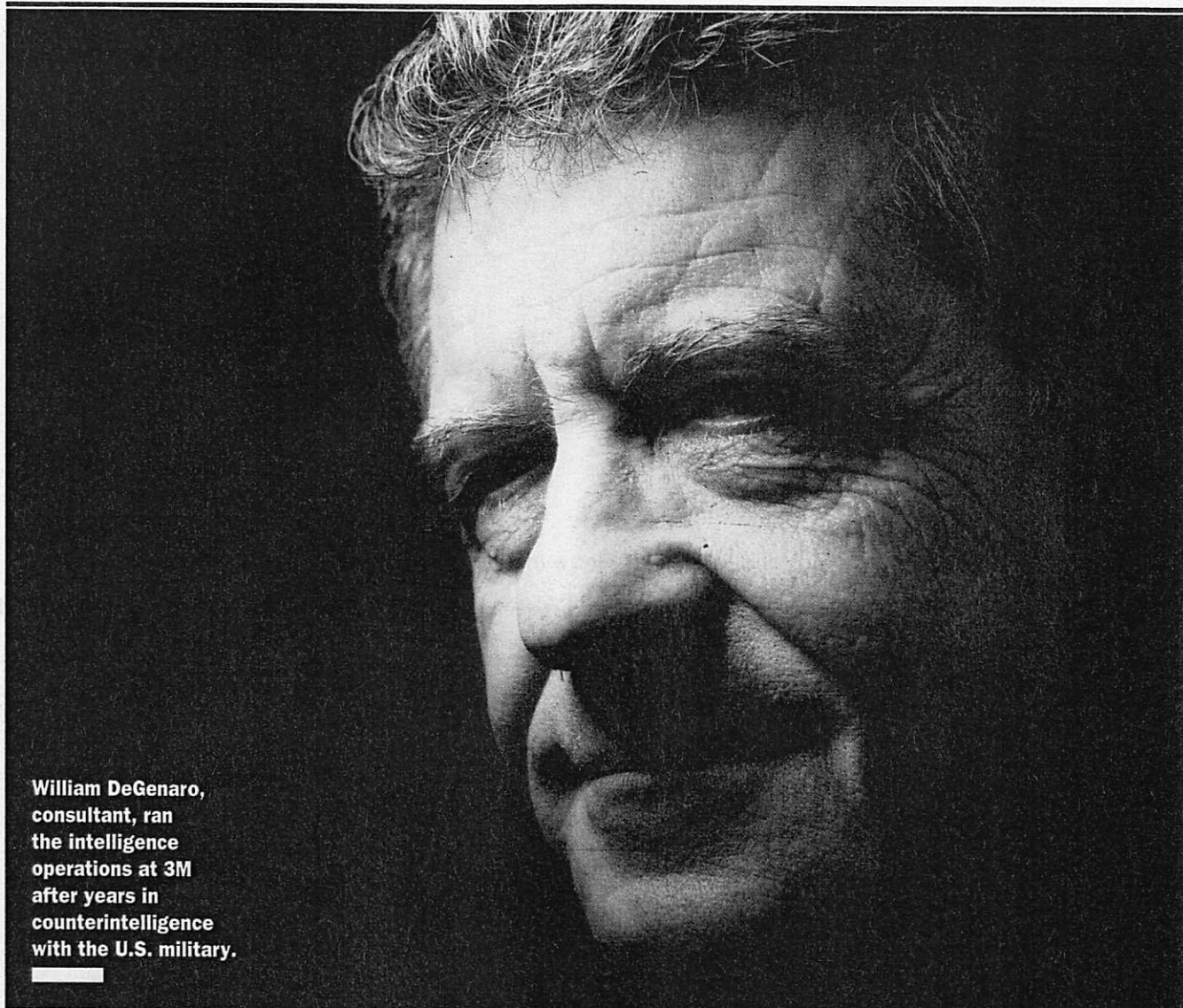
ed intelligence for numerous firms. He says that feigning ignorance is integral to his techniques. If a source starts spouting, Sindel will exclaim, "Hey, that's way over my head," so the dupe "doesn't think he's giving the farm away."

Nolan demonstrates elicitation techniques with videos of ingeniously manipulative conversations. In one he chats with a defense contractor's accountant. Probing for details about the company's rate structure, Nolan unsettles the accountant with an outrageously false statement: "So your profit margin is 40% to 50%." Nothing like that, the accountant corrects him, and discloses a more accurate figure.

Nolan says he merely exploited a

John Nolan once recruited and trained U.S. spies; now he'll teach your employees how to elicit information.





**William DeGenaro,** consultant, ran the intelligence operations at 3M after years in counterintelligence with the U.S. military.

“natural tendency to correct others.” If you seem ignorant or naive, he adds, folks often “feel obligated to instruct you.”

Other favorite techniques include pleas for guidance (especially effective when dealing with a type Nolan calls “the helpful American”) and flattery (“the greater the expert, the more he appreciates praise”).

“Clinical psychologists say people tend to remember the beginning and the end of a conversation—not the middle,” adds Nolan. If you elicit the sensitive information halfway through and finish up with harmless chatter about your kids, your source won’t “walk away upset and suspicious.”

How serious is all this snooping? The Society of Competitive Intelligence Professionals has grown from a few dozen members in 1986 to more than 6,000 today, doubling in the past two years.

Companies such as Microsoft, General Electric and Procter & Gamble have become highly

skilled at digging up information about competitors, while firms like Kellogg Co. have hired ex-spooks to beef up their intelligence operations. Intel has recruited ex-CIA officers with training in disinformation.

Within months of taking the reins as chief executive of IBM, Louis Gerstner set up a squad of competitive intelligence teams, each under a different senior executive.

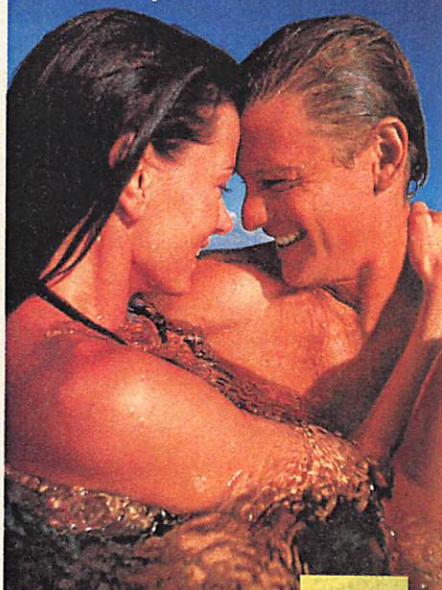
One group digs for information about Compaq, another about Hewlett-Packard. IBM established this system with help from Jan Herring, an intelligence consultant who used to work for the CIA.

IBM’s dozen intelligence teams have developed an extensive “human intelligence network.” They target their competitors’ consultants, suppliers, customers and even employees. A favorite source of information: young engineers from competing companies. Those engineers may not know a great deal, but intelligence people are skilled at taking snippets of information and assembling them into mean-

**Intel and Kellogg have hired former U.S. spooks to beef up their intelligence divisions.**



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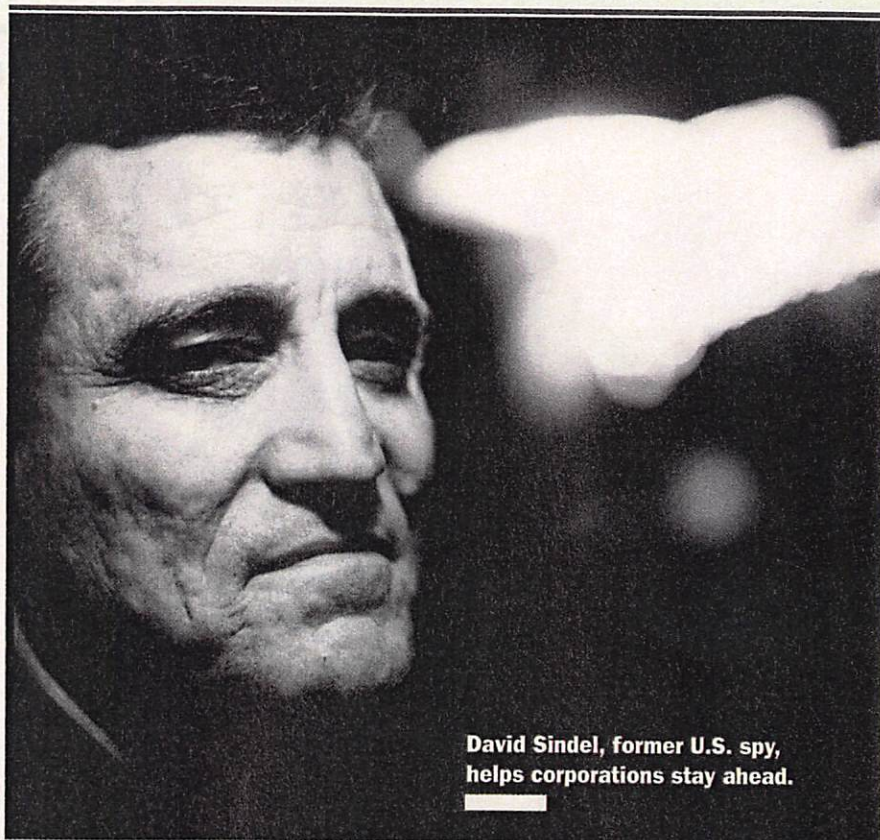
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**David Sindel, former U.S. spy, helps corporations stay ahead.**

ingful patterns. IBM's teams gather bits and pieces and download them into a central database, accessible to 450 of the firm's top executives.

Much of the advantage gained is tactical. When a competitor is launching a new product, IBM wants to learn about it in advance. IBM's sales force calls an 800 number to hear details about the rival's product, discounts and sales pitches.

Northern Indiana Public Service, a gas and water utility, expanded its intelligence team last year under Thomas Parker, a former captain in military intelligence. Parker has used his elicitation skills to collect information on potential acquisitions. "We're not spies," says he. "We're thorough investigators."

David Sindel, a retired U.S. spy who now works for an Arizona-based outfit called Saguaro Research, says an American firm recently hired him to check out a businessman from Hong Kong, shortly before it was to seal a \$22 million electronics deal with him. "In about 20 hours we established that he was a fraud," says Sindel. "The big factories he had were all empty buildings."

George Dennis, director of competitor intelligence at Bellcore, says trade journalists are useful sources of information, particularly when you exploit their craving for respect.

### Intelligence eagles

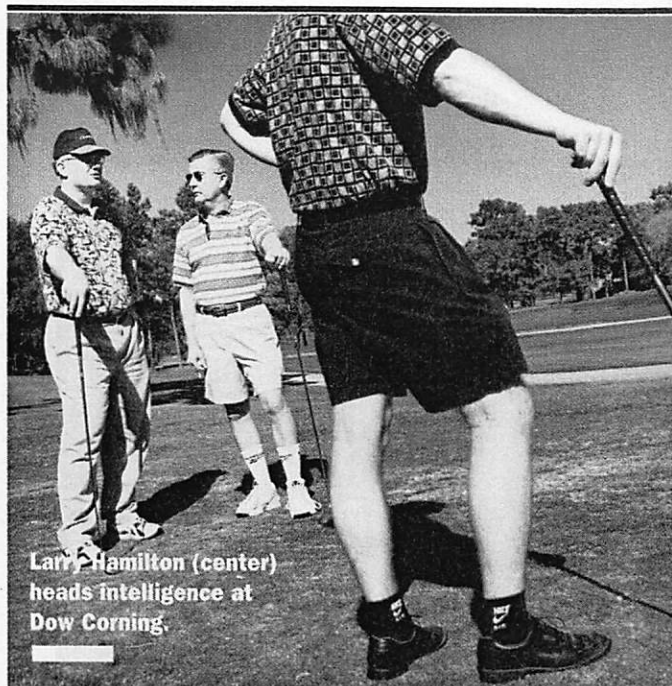
THE FUTURES GROUP, a business-intelligence consultancy, puts out a widely read annual survey on the use of competitive intelligence in the U.S. Here's its most recent list of "eagles"—America's savviest players of the intelligence game.

The victor? Microsoft toppled Motorola, the resounding winner in 1996.

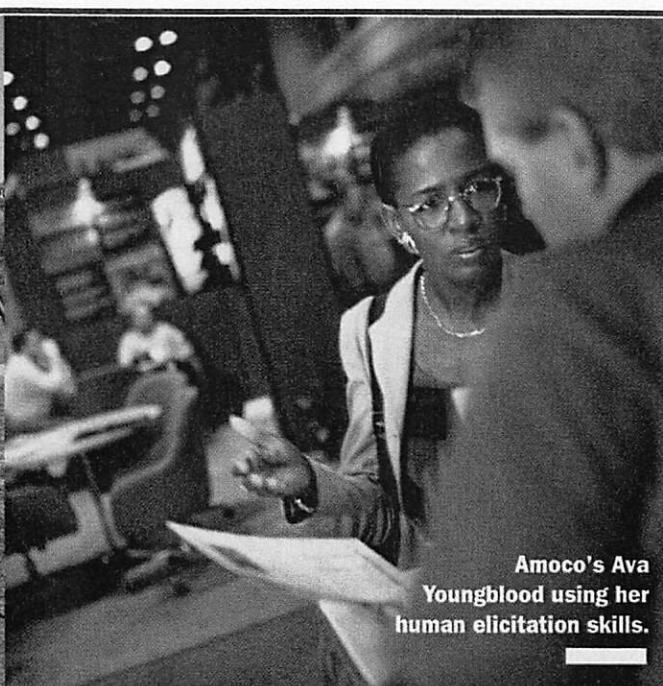
#### 1997 eagles

1. Microsoft
2. Motorola
3. IBM
4. Procter & Gamble
5. General Electric
5. Hewlett-Packard (tied with GE)
6. Coca-Cola
6. Intel (tied with Coca-Cola)





Larry Hamilton (center) heads intelligence at Dow Corning.



Amoco's Ava Youngblood using her human elicitation skills.

"Most of what we find is very small," he says, "It's only when we put it together that it adds up to something."

Under Larry Hamilton, Dow Corning's manager of global business intelligence, the company has developed an "early warning" system to detect moves by its competitors in the U.S., Japan, Korea, France and Germany. By tracking their environmental filings, for example, Dow obtains advance knowledge of its competitors' expansion plans. "You're not doing anything illegal," says Hamilton. "You're just being smart."

The Society of Competitive Intelligence Professionals promotes strict ethical standards, even suggesting that intelligence collectors identify their employers to every source. Firms like IBM and Bellcore do warn their intelligence officers not to misrepresent themselves. But the rules aren't always strictly followed. One freelance investigator says he recently posed as an EPA official to trick a company into giving him information. He says his professional motto is: "Through deception thou shalt wage war."

Where there is intelligence, there is counter-intelligence. Dan Swartwood, Compaq Computer's corporate information security manager, says Compaq's employees often get suspicious calls. The callers typically leave a nonworking number or fake name to protect the identity of whoever hired them. In spy terminology this is known as using a "cut-out."

Some spies try what Swartwood calls the "recruiting ruse"—posing as headhunters. They tell a Compaq employee: "I've got this great job for you. . . . I just need to know more about your current skill set."

Compaq instructs all employees, including temporary workers, to report suspicious calls. But Swartwood, a former Army counterintelligence officer, concedes, "All

you can do is manage risks" and try to delay leaks about future products.

Some companies hire investigators to test their own defenses against corporate spooks. These self-directed operations are known as "red team attacks." John Nolan recently undertook such a mission for an electronics firm that was about to launch a major new product.

Brandishing a fake résumé, one of Nolan's associates applied for a job at the electronics company. The applicant aced his interviews and—under an assumed name—was offered a position that would have given him access to an abundance of corporate secrets. Says Nolan: "We could have had him working there for four years without anybody realizing."

**One investigator's motto: "Through deception thou shalt wage war."**

Few companies would go so far as planting a spy in this manner, but it is dangerous to take for granted that your competitors are ethical—as many people naively assume. A recent survey suggests that 40% of U.S. firms still have no organized business-intelligence system. "Americans don't like intelligence," explains James Thomas, an ex-CIA officer who ran the intelligence departments at General Dynamics and US West. "We don't like to be sneaky."

Yet we all spy, in a way. If we are in a competitive business—and who isn't—we are constantly trying to guess what the opposition is up to. Formal spying just takes the technique further. Here's what General George S. Patton had to say about intelligence-gathering: "I have studied the enemy all my life. I know exactly how he will react under any given set of circumstances. And he hasn't the slightest idea of what I'm going to do."

"So when the time comes, I'm going to whip the hell out of him."