

# **Information Scanning in Entrepreneurial Ventures: A Model for Accessing Information**

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## **Abstract**

Strategic planning and information scanning have been shown to be important for all businesses and especially for new and emerging ventures. However, little has been written about accessing strategic information that is available to entrepreneurs and managers. In this paper, we present a model of strategic information with an emphasis on sources of information and methods of acquiring and analyzing that information. We categorize strategic information into one of eight cells in a 2 x 2 x 2 matrix, giving examples of each. Entrepreneurs and consultants can use the model to identify relevant information for strategic planning purposes.

## **Literature Review**

Strategic planning has been shown to be especially valuable for entrepreneurial firms. A number of studies have found that those businesses that use strategic planning outperform those who do not (Kopf & Beam, 1992; Shrader, Mulford, & Blackburn, 1989). In addition, Bracker, Keats, and Pearson (1988) found a relationship between financial performance and the degree of formality of planning. Mohan-Neill (1995) found a correlation between types of environmental scanning and the size and age of a company. Larger firms tended to use more formal methods and to search the remote environment for strategic information while smaller firms more informally studied the more immediate environment. The common thread among all of these studies is that scanning the environment for strategic information is beneficial to long-term performance.

As important as these results are, the research leaves out one critical element. That element is the methodology and data sources used to access strategic information. Little has been written regarding where strategic information lies and how to access it. Entrepreneurs and analysts are encouraged to "do strategic planning" and conduct environmental scanning, but few specifics are offered to guide them in their search for information. This study attempts to fill those gaps by presenting a taxonomy of strategic information with an emphasis on accessing that information.

In the sections that follow, we present a three-dimensional model (2x2x2 matrix) of strategic information. We will then discuss each of the eight cells individually.

## **The Model of Strategic Information**

We characterize the acquisition of strategic information in three dimensions. These are shown in Table 1. Thus, the task of strategic information analysis requires three decisions. First, entrepreneurs must decide what the focus of the analysis will be. They must then determine where to find relevant information. Third, they must determine how to get it.

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**Table 1**  
**Dimensions of Strategic Information**

1. Focus of the strategic analysis (Company vs. Environment)
  2. Information location (Inside the firm vs. Outside the firm)
  3. Access method (Primary vs. Secondary research)
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## **The Focus of Strategic Analysis**

The focus of analysis is a key dimension of strategic information. Two possibilities exist: analyzing the company itself or analyzing the environment in which the venture operates. Company-focused strategic information is any information that helps managers assess the venture's ability to compete -- regardless of where that information was derived. Thus, financial information is company-focused strategic information. Sales information is company-focused strategic information. R & D expenditures and the rate of new product development are company-focused strategic information.

Note that we specifically use the term company-focused strategic information rather than simply internal information. Companies have a plethora of information about their company at their disposal, but much of that information is operational rather than strategic. For example, the defect rate in a manufacturing firm may be very important, but it is not strategic information unless the defect rate seriously affects the firm's ability to compete. Similarly, employee morale may not be internal strategic information even though corporate culture may be. Note also that company-focused strategic information may be externally generated. For example, an entrepreneur may contact the venture's banker to assess the probability of extending the company's credit line. Thus, the information gained comes from outside the firm even though it is company-focused information.

Environment-focused information is any information that reveals opportunities or threats in the company's competitive environment. Competitors' annual reports fall into this category. So does trade association information. Studies of changing demographics are done using external information. Information regarding the economy, exchange rates, inflation, and new technologies are external information as long as they provide information that relates to opportunities and threats.

Some information may be either company-focused or environment-focused information. For example, changing government regulations may affect a company's ability to compete. Hence, it is company-focused information. That same government regulation may open up new opportunities for the firm or become a fatal flaw for an existing strategy. Hence, it can also be environment-focused.

Examples of company-focused and environment-focused strategic information are shown in Table 2. Keep in mind that these examples represent only a small portion of the strategic information available.

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**Table 2**  
**Company- and Environment-Focused Strategic Information**

**Company-Focused Information**

Financial Information

- Return on Investment
- Net Income
- Cash Flow
- Debt to Equity Ratio

Marketing Information

- Advertising Budget
- Media cost per customer
- Number of outside salespeople
- Market Share for products A, B, and C

Innovation Information

- Number of new products introduced this year
- Percentage of total sales by products developed in past five years
- R & D budget

**Environment-Focused Information**

- Number and size of competitors
  - Size of our demographic target market
  - Strength of dollar against foreign currencies
  - Changes in the industry dynamics (relative strengths of competitors)
  - Rapidity of change in the industry
  - Growth in the economy
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**Information Location**

The second dimension of strategic information is its location. Do not confuse location of information with the focus of the analysis. The focus of analysis relates to what is to be done with the information. Location is simply where that information is. But this difference is more important than one would think. This is because we may find information about the environment inside the company. Conversely, we may find information about the firm, itself, from some source external to the company. Consider the following examples.

Suppose we want to determine whether competitors are likely to react aggressively to an entrepreneurial thrust we are considering. That requires environment-focused information. Yet, it is untenable to think that we could simply ask the competitor for the information. Thus, we need to find that information somewhere else. One place we may look for that information is inside our own company. Assuming that we have tracked competitor sales -- which should be done routinely -- we may be able to compare their own strategic moves in the past to our own.

Obviously, the two choices for location of strategic information are inside the firm and outside the firm. Specifically, Table 3 shows examples of locations of information sources both inside and outside the firm.

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**Table 3**  
**Location Sources of Strategic Information**

**Inside the Firm**

- Financial statements – current and historical
- Capital acquisition records – denotes when and what kind of capital we have used
- Production records – amount of overtime necessary to meet demand
- Marketing records – analysis of effectiveness of advertising media and campaigns
- Product returns and defects records – may tell us where trouble is occurring
- Focus groups of managers and other employees – sales projections

**Outside the Firm**

- Trade Associations – data on total industry sales for the previous year
  - Dun & Bradstreet, Robert Morris Associates, and others – industry norms by asset size and sales
  - Census Bureau – demographic changes within a city over past ten years
  - Competing company web sites – annual sales, strategic thrusts
  - Government agency web sites – changes in regulations
  - Newspapers, business magazines – articles on trends
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**Information Access Methods**

There are two types of data gathering methods: primary research and secondary research. Primary research methods collect data that have not been previously published in any form. Market research often uses primary data. Interviews of customers, focus groups, mail and telephone surveys, casual discussion with customers, and discussions with the company’s sales force are all methods of primary research. The advantage of this method is that specific questions can be asked such as why consumers purchase one brand over another or what features they would like to see in a product.

Secondary information is that information which is already published. Examples include the company’s sales reports for the past two quarters, competitor annual reports, any government data, and anything found on the world wide web. Although secondary data cannot provide some of the flexibility in research that primary data can, the great advantage of secondary data is that they are usually cheap and readily available. Table 4 shows examples of primary and secondary information.

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**Table 4**  
**Primary and Secondary Strategic Information**

**Primary Information**

- Surveys of customers leaving a store – provides good customer satisfaction information

Names and addresses from checks – shows geographic size of target market  
 Discussion with area sales managers – which products are lagging, and why  
 Focus groups of employees – discuss barriers to growth

**Secondary Information**

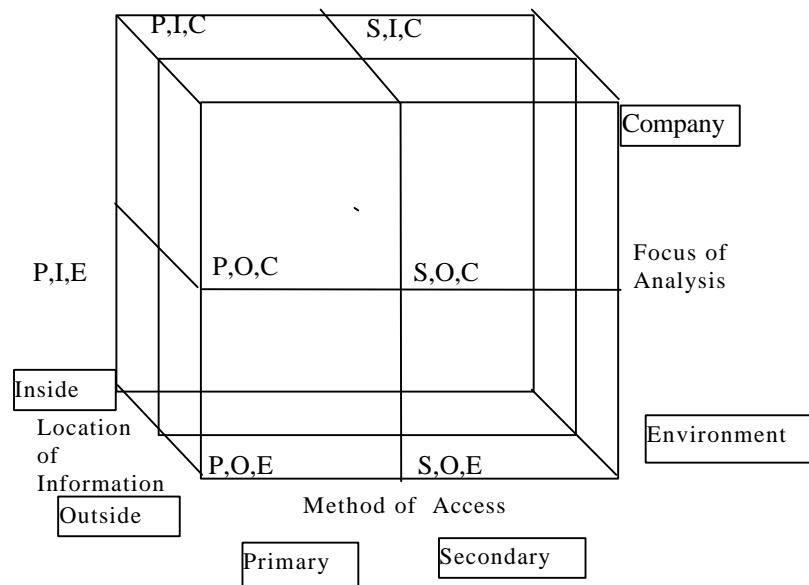
Web sites – analysis of competitors’ products  
 Company records – comparative analysis of financial ratios  
 Chamber of Commerce brochures – information on potential new plant sites  
 Newspaper articles – indicate new companies entering market or old companies exiting

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From the above, we have three dimensions of strategic information: focus of strategic analysis, location of information, and method of accessing the information. We can now put these dimensions together. Figure 1 shows the 2 x 2 x 2 Model of Strategic Information.

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**Figure 1**  
**Model of Strategic Information**



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Now each cell can be identified. Cell P,O,E is primary data collected outside the organization which provides information regarding the environment the venture faces. Cell S,O,E shows similar information except that the information is secondary data. Thus,

information in P,O,E might be customer information obtained by surveying potential customers whereas information in S,O,E is information obtained from an industry trade association about typical customers.

Cell P,I,E is primary data collected inside the venture that yields information regarding opportunities or threats. This might be a focus group of the sales force. Cell S,I,E (hidden from view) is already published information inside the organization dealing with the environment. Thus, last year's strategic planning committee report can be checked to see how the competitive environment has changed.

The remaining four cells are in the top half of the cube. Thus, all the information gathered in any one of these cells deals with the capabilities of the venture to compete. In other words, each provides information regarding strengths and weaknesses of the firm. Cell P,O,C is externally generated primary data about the company. An example might be information provided by a market research firm that we hire to interview customers in a mall. The survey solicits respondents' ranking of the customer service of a number of competing firms. If our venture ranks low, we would be concerned about the venture's ability to compete for those customers. Suppose, on the other hand, that our restaurant receives a bad health inspection rating from the county health department. That information is outside the firm, secondary data that casts doubt on our ability to maintain a clean restaurant (Cell S,O,C).

Cell P,I,C is primary information gathered inside the firm that helps determine the venture's ability to compete. An easy example here is morale surveys among low level employees. As we collect that data, we find evidence of whether employees are motivated enough to embark on a major growth strategy. Cell S,I,C shows information that is already published information, held inside the firm, that deals with the company's competitive strengths and weaknesses. Financial reports typify this kind of information. Thus, we can compare this quarter's financial ratio's to that of two quarters back.

## Sources of Strategic Information

In this study, we attempted to provide a systematic approach for collecting and analyzing strategic information. While many large firms have advanced systems to collect these data, many small firms are not as formalized in their approaches. Therefore, we conclude this study by presenting examples of sources of strategic information in Table 5 for each of the cells identified in our model of strategic information. Entrepreneurs or managers can use these sources to locate strategic information. Each cell contains sources of information that are relevant to some part of the overall strategic analysis.

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**Table 5**

### **Selected Sources of Strategic Information**

#### **Cell P,O,E -- Primary Data, Outside the Firm, External Focus**

Customer surveys  
Mail or telephone surveys of the general public  
Purchasing competing products to analyze  
Questioning city officials  
Networking at events

Talking to suppliers  
Attending trade meetings where industry forecasts are presented

**Cell S,O,E -- Secondary Data, Outside the Firm, External Focus**

Trade association magazines  
Census information (c.f., [www.census.gov](http://www.census.gov))  
Demographic information (c.f., [www.easidemographics.com](http://www.easidemographics.com);  
*American Demographics*; *Demographic Yearbook of the United States*; Area  
Chambers of Commerce)  
Industry statistics (*Market Share Reporter*; *Standard & Poor's Industry Surveys*; *Industry  
Norms and Key Business Ratios*; Local Chambers of Commerce and Economic  
Development Councils)  
Government reports on economic conditions (*Economic Indicators*; *Economic Report of  
the President*; [www.bls.gov](http://www.bls.gov); [www.fcncd.com](http://www.fcncd.com))

**Cell P,I,E -- Primary Data, Inside the Firm, External Focus**

Focus groups with sales force  
Discussion with production staff about comparisons with competitor's products

**Cell S,I,E -- Secondary Data, Inside the Firm, External Focus**

Previous strategic planning documents  
Annual reports on file  
Published industry data from past years

**Cell P,O,C -- Primary Data, Outside the Firm, Company-Focused**

Discussion with banker and investors  
Discussion with key suppliers  
Customer surveys ranking our firm's customer satisfaction

**Cell S,I,C -- Secondary Data, Inside the Firm, Company-Focused**

Financial statements, ratios, analyses  
Operational reports such as defects, cost overruns, inventory costs  
Employee turnover data  
Morale surveys from previous years  
Budgets and budget analyses

**Cell S,O,C -- Secondary Data, Outside the Firm, Company-Focused**

Dun & Bradstreet, Robert Morris, others  
Industry norms reflecting productivity, efficiency, and financial condition (*Industry Norms  
and Key Business Ratios, Robert Morris and Associates*)  
Various web sites relating to specific aspects of the internal analysis

**Cell P,I,C -- Primary Data, Inside the firm, Company-Focused**

Morale surveys  
Discussions with department managers  
Observation of production methods  
Discussions with sales force

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