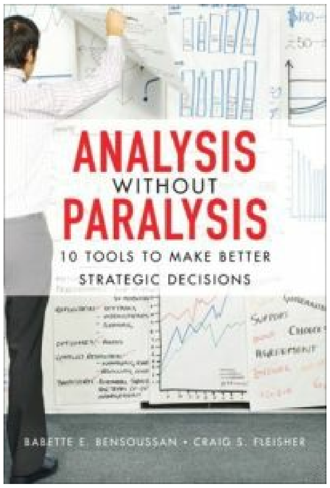

Book Analysis Without Paralysis

10 Tools to Make Better Strategic Decisions

Babette E. Bensoussan and Craig S. Fleisher
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Recommendation

Developing a good corporate strategy requires rigorous analysis. You don't need to become a quant or a statistics expert, but you should understand how worthwhile analytics abet planning. Strategic analysis expert Babette E. Bensoussan and management professor Craig S. Fleisher explain, in simple terms, 10 classic, tried-and-true diagnostic techniques in this introduction to strategic development. This isn't a book for nerds, but for business executives and managers who need to know the basics of analysis so they can develop better corporate strategies. This guide is easy to use, with concise but thorough introductions to major analytical tools, their pros and cons, and step-by-step instructions for how to implement each one. *BooksInShort* recommends this useful primer on corporate analytics to any managers who need grounding in this important discipline.

Take-Aways

- Managers should know some common analytical techniques since good analysis is the basis for strategic planning. Turn to 10 well-tested analytical tools:
- First, the "BCG Growth Matrix" labels each product as a "cash cow, star, dog or problem child." Second, "competitor analysis" gives you a handle on your rivals.
- Third, use basic financial statements and ratios to make sense of your numbers.
- Fourth, understand your industry's "five forces": barriers to entry, supplier power, consumer power, product substitution and competitive challenges.
- Fifth, turn to "issues analysis" to prepare for changes in your public environment.
- Sixth, supplement that with "political risk analysis" that studies external challenges.
- Seventh, "scenario analysis" can help you plan your firm's future.
- Eighth, "macroenvironmental analysis" illuminates the "political, economic, social and technological" (PEST) aspects of your business.
- Ninth, "SWOT analysis" uncovers corporate strengths and weaknesses.
- And tenth, "value chain analysis" shows you how to improve your costs and serve your customers.

Summary

Do You Know What You Don't Know?

Executives must develop solid, sustainable, original corporate strategies tailored to give their companies a competitive advantage. But strategies don't blossom out of the ether; they usually start with sharp analytics. Thorough analysis of your strategy, your industry, your rivals and your business setting should provide an "early warning" of upcoming challenges and "an objective, arm's-length assessment" of your competitive position. Cogent analysis will enhance your capacity to respond rapidly to environmental changes, give you assurance that your decisions are based on "systematically derived" data and provide the tools you need to transform your ideas into concrete plans.

> "Analysis is without a doubt one of the more difficult and critical roles a manager is called upon to perform."

Relying on your "intuition" or "experience" to drive your business is no longer enough. Today's competition is global, and you're working in a "knowledge economy" that increasingly puts a premium on synthesizing data in new, creative ways. Keeping rivals from co-opting your products and processes is harder now, so you need to work faster and smarter. You don't have to be an expert in statistics or a quantitative analyst, but you do want a basic grasp of the advantages that worthwhile analysis can bring to your company.

> "Effective analysis requires experience, good inputs, intuition, models and, some would argue, even a dash of good luck."

Gathering data is much easier than analyzing it. For a variety of reasons, analysis doesn't always provide the outcomes you need. For example, using the same analytics time and again leads to "tool rut," where every problem looks like a nail if all you own is a hammer. Moreover, many business school graduates tend to apply finance and accounting skills to strategic questions instead of using data analysis. Finally, many people analyze the information they have, never asking what other data they need to address the problems they face.

"What Is Analysis?"

Simply put, analysis means dividing a problem or issue into its components and then studying each element's "value, kind, quantity or quality." The basic approach consists of four stages:

1. The "analytical framework" describes the reason for the analysis.
2. The collection assembles the facts.
3. The analysis attempts to uncover the sense behind the facts.
4. The "implications" set the stage for a final decision.

> "As a process, analysis depends upon raw data. However, not just any data will lead to effective analysis."

Analytic skills are like muscles: The more you exercise them, the stronger they get. Set a goal for your research before you choose your analytics, and don't use the same tools too often. Analysis is not a panacea; you still must use good judgment in assessing the results. The following 10 "classic techniques" for developing strategy form a base level of knowledge for any executive:

1. "BCG Growth/Share Portfolio Matrix"

In the early 1960s, General Electric and the Boston Consulting Group (BCG) developed a methodology that "multiproduct, multimarket...multinational" firms can use to assess their portfolio strategies and allocate their resources. The "BCG Growth Matrix" compares a firm's current market share to the market's growth prospects, and it categorizes the results in four boxes: 1) low growth and high market share equal a "cash cow" – milk it for all it's worth; 2) high growth and high market share denote a "star" – invest; 3) high growth and low market share can indicate a "problem child" – study it; and 4) low growth and low market share mean a "dog" – sell or close it. The matrix is simple to develop and understand, but it has some flaws: Market share does not always indicate profitability, and some firms succeed in low growth markets.

2. "Competitor Analysis"

Understanding your competitors can help you discover and manage prospects and risks. Studying your rivals helps you to learn their strategies, judge their predictable responses to your moves, correlate their plans and capabilities, and develop insights into weak spots you could exploit. First promulgated by Harvard's Michael Porter, one of the first strategists to propose a "formal and systematic model to gather information about competitors," this analysis helps you prepare defensive moves and launch offensive plans. Gather and analyze four categories of data about your peers: 1) Their "drivers" or "future goals, philosophies and strategies"; 2) their "current strategies"; 3) their "current capabilities and resources"; and 4) their "management assumptions." This analysis can help your firm move decisively in a competitive environment, rather than just react to rivals' actions. But don't base all your strategy on this analysis; you might ignore issues and opportunities from outside your peer group or industry. Being too much of a "copycat" can limit innovative thinking.

3. "Financial Ratio and Statement Analysis"

Becoming comfortable with certain financial concepts and terminology will make you a more effective strategist. Financial Ratio and Statement Analysis (FRSA) helps you make sense of your fiscal numbers and – combined with other analytical techniques – is an important part of strategic planning. First, study the "accounting equation" – a company's liabilities and net worth equal its assets – and then examine the parts of that equation: current, fixed and noncurrent assets; current and long-term liabilities; and "owner's equity." Learn to read an income statement of revenues and expenses and to understand its relationship to the balance sheet – as a snapshot of a firm's assets, liabilities and equity. Monitor cash flow by using the "position statement" and the "statement of changes in owner's equity." Ratios like "inventory to sales" or "debt to equity" indicate performance, that is, how your firm compares to its peers and its industry standing. But FRSA offers only a past, static view of your progress. Be wary of "benchmarking for mediocrity" by overemphasizing your company's financials relative to its peers.

4. "Five Forces Industry Analysis"

Is your industry cutthroat or monopolistic? Porter's methodology for studying industry dynamics reveals your competitive environment. Measure five forces: 1) the "threat of new entrants" overcoming your industry's barriers to entry; 2) the "bargaining power of suppliers," that is, who wields the power; 3) the "bargaining power of buyers," or the extent to which clients dictate terms; 4) the "threat of substitute products or services," usually from outside the industry; and 5) the "degree of rivalry among existing competitors." Rank the intensity of each force from one to five (five being weakest), and indicate with an arrow if the trend is growing or declining.

> "Analysis would be less necessary if people could execute their decisions themselves and nobody had to convince anybody of anything."

This analysis can help you predict how shifts in one force affect the others, how such changes might influence industry profitability and how to respond. Your industry is only one component of your strategy; your "core competencies" might override your concerns about your overall industry.

5. “Issue Analysis”

External environments pose challenges that can influence your strategic choices. Assessing “public environmental intelligence” alerts companies to emerging societal or policy issues. For example, executives can voice opinions about pending legislation that might affect their operations, they can adjust their human resources practices in light of social trends, or they can exit businesses that conflict with community standards. Choose issues and areas most likely to shape your firm’s operations and plans. Evaluate various scenarios in order of their magnitude and likelihood, and identify possible responses. Preparing for these issues can give you the flexibility and time you need to deal with them, but going forward you must keep your analysis current. Apply creative reasoning in your research because many policy issues are unpredictable and “defy logical or rigorous assessment.”

6. “Political Risk Analysis”

Political risk analysis (PRA) provides intelligence about a crucial aspect of the external environment: government policies, actions and politics, and their impact on corporate activity. A good PRA might cover tax and tariff regimes, political unrest, corruption, legislation and “threats to physical and intellectual assets.” Globalization, outsourcing, intellectual property protection and political instability make PRA essential to your strategic arsenal. While lots of information is available online, you must check its reliability. Many firms now hire consultants to keep them updated because of the complexity of this field. Analyzing political risk is “part art and part science,” so don’t make assumptions, particularly about issues involving unfamiliar cultures.

7. “Scenario Analysis”

Businesses create scenarios, or “detailed descriptions of what the future might look like,” to address the chance and magnitude of change in their strategic planning. Scenario analysis clarifies situations that are highly uncertain, subject to change or prone to expensive shocks. Scenario analysts use “computer-generated econometric models” to assess quantitative variables and to apply several other methods in specific circumstances, such as “cross-impact analysis” to calibrate an event’s probable impact on fabricated scenarios. To develop a useful scenario analysis, create multiple possible descriptions of the future. Then either use “deductive reduction” to explore the possible paths each scenario presents or utilize “inductive reduction” to cut the number of variables down to the most likely ones. A good scenario analysis can kick-start discussion, thinking and action among strategy makers. Don’t opt only for scenarios that best match current competencies; be open-minded about possible real change in the future.

8. “Macroenvironmental Analysis”

This deals with variables outside your company’s control – that is, matters that are “social, technological, economic, ecological and political/legal” (STEEP – also called PEST, for “political, economic, social, technological”). These areas generate great uncertainty among strategic planners.

> “Always assume that competitors are simultaneously performing similar analysis on your company.”

Think of your corporate environment as three concentric rings, like a target pattern: At the center is your firm’s “internal” environment; the next ring is the “operating” environment, which encompasses your clients, vendors and competitors; and encircling both is the “general” or STEEP environment. Social factors to consider include unionization, consumer ethics and income inequities in the population. Technological matters include bandwidth and access to university talent. Economic factors include inflation, GDP and interest rates. Ecological variables include your power sources, as well as pollution and environmental rules. The political milieu encompasses activism and regulatory regimes. Defining such externalities is a challenge.

9. “SWOT Analysis”

Assessment of your company’s strengths, weakness, opportunities and threats, called SWOT analysis, has been around since the early 1970s and is firmly entrenched in the business lexicon.

> “By definition, any time someone tries to gauge risk, something unexpected can happen.”

A SWOT analysis assesses a company’s capabilities relative to its outside environment, so it pairs well with five forces and STEEP analyses. Use SWOT to strategize at the product, division or operating levels. Gauge your firm’s internal and external SWOT components by asking “What can we do?” “What might we do?”, “What do we want to do?” and “What do others expect us to do?” Implementing SWOT is simple and not costly, but it can produce answers that are too general since it uses qualitative measures. Individuals can interpret its inputs in different ways, making its results more useful in strategic thinking than in executing strategies.

10. “Value Chain Analysis”

Value Chain Analysis (VCA) separates the components of your firm that create economic value for customers, analyzes the cost of each component and improves them to build profits and satisfy clients. VCA, which Porter also popularized, considers two sides of a firm’s functions: its “primary activities” (supply and distribution logistics, operations, marketing, sales and service) and its “support activities” (technology, personnel and infrastructure). You can adjust profitability by changing these components.

> “Environmental conditions affect the entire strategic management process.”

Value chain analysis can help you visualize your relative position in your industry. VCA can refine SWOT analysis by probing finer details about strengths and weaknesses and comparing cost to value. Its drawbacks lie in its focus on physical products and assets. Newer versions of VCA relate to information technology and services companies. While useful, VCA requires a substantial investment in time and in “benchmarking, customer research, competitive analysis and industry structure analysis.”

About the Authors

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