

Worksheet 2: Internal Analysis (Steps 2, 3 & 4)

This worksheet should form the basis for the Module 2 group workshop organised in accordance with the project documentation. You should print out a copy of this worksheet and take it with you to the workshop. The intention is that you draw on a wide range of viewpoints and perspectives so that your organisation can truly benefit from aggregated brainpower.

Exercise 1 - Draw a Strategy Canvas (Step 2)

As highlighted in Worksheet 1, identifying those factors that have the biggest impact on profitability within an industry (though a Porter's 5 Forces analysis - Step 1) is an important starting point in developing strategy. However, the industry forces are not the only criteria that determine the best strategies for a business. This is demonstrated by the fact that different businesses within the same industry will often successfully pursue very different strategies to address the same industry forces.

In order to identify the best strategies for a specific business within an industry, we need to determine the customer needs that the business prioritises. This can be achieved by drawing a Strategy Canvas (as explained in Video 2.4). Drawing a Strategy Canvas is Step 2.

Exercise 1.1 - List the Customer needs

Specify the product / service to be analysed

Use the space below to list the attributes important to the customers of this product / service.

(Please note the factors that are important to the customers (the customer needs) may not always be obvious and therefore this exercise may require some creative, lateral thinking.

Exercise 1.2 - Draw the Strategy Canvas

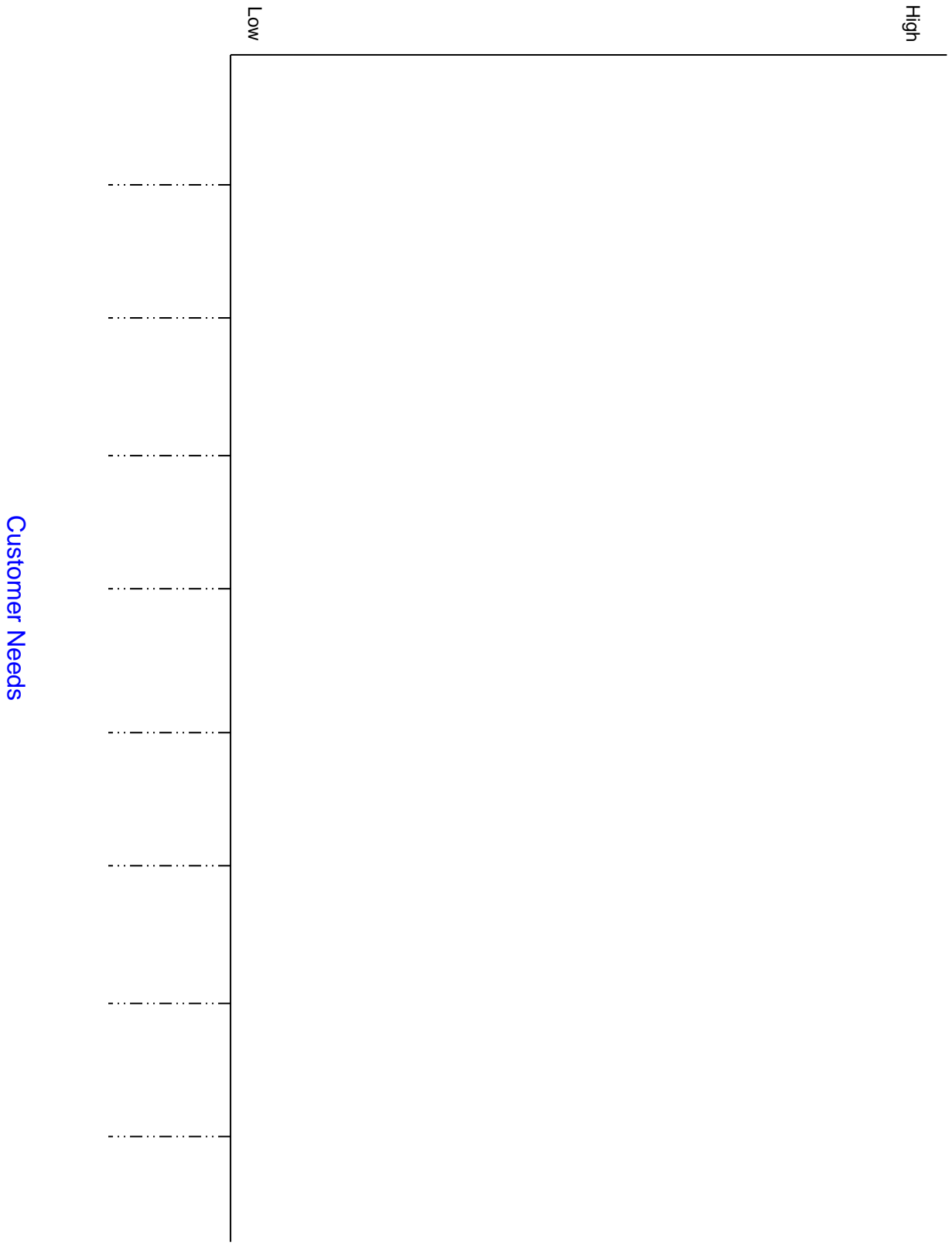
On the next page insert the customer needs (listed above) on the horizontal axis (the x-axis) and draw a strategy canvas for your product / service, determining how high you believe that each customer need should score.

The higher-up you score any given customer need, the more you think the business should prioritise (and therefore invest in) that need. However, remember price is an exception to this rule - the higher the score in relation to price - the higher the price (see below and Video 2.4).

Where possible compare your product / service with that of at least one of your competitors.

When carrying out this exercise remember:

- The purpose of drawing a strategy canvas is to represent where you would **like** your business to be positioned in the market in relation to the product or service in question.
- However, even though you should be idealistic when drawing a Strategy Canvas (in that it represents where you would **like** the business to be positioned in the market), you must also be realistic and recognise that there will always have to be some kind of a trade-off. Clearly a business will not be able to provide a superior product / service in relation to each and every customer need whilst at the same time providing the cheapest product / service. The Strategy Canvas maps out this trade-off.



Exercise 2 – Select a Business Strategy (Step 3)

There exists a set of predefined strategies that correspond to each of the 5 industry forces and which have been designed to address those industry forces in order to improve profitability. These strategies are listed on the next few pages.

Using your understanding of:

- (1) the nature and characteristics of the forces at work within the industry (Step 1) - as defined in Worksheet 1; and
- (2) the customer needs that business seeks to prioritise - defined by the Strategy Canvas (Step 2) - (Worksheet 2 - Exercise 1)

Select the different Business Strategies which could be of benefit to your business, remembering that any strategies that you choose to pursue must be consistent with the strategy canvas.

(However, whilst you may select a number of different Business Strategies which could be important for your business in this Exercise 2, the next exercise (Exercise 3) will ask you to **focus on just one specific Business Strategy** for the remainder of this worksheet. This is purely for the purposes of this workshop and the allocated time available.)

Customer Strategies

To help the business to win and retain Customers

- Win customers by providing them with a unique or superior product / service
Best described by the Strategy Canvas itself (See **Strategy Canvas** for full details)
- Win customers by providing them with the cheapest product or service
Best described by the Strategy Canvas itself (See **Strategy Canvas** for full details)
- Tie customers in with long term agreements (e.g. Insurance, Gym Membership, Mobile)
- Make it difficult for customers to switch to competitors
- Customer Reward / Loyalty Programmes (e.g., Store cards, Air Miles, Discounts for best Customers, Discount for bulk purchases, stamp cards in coffee shops etc.)
- Provide customer with credit / hire purchase agreements
- Provide a range of complementary products or services (e.g. boiler repair provided by gas suppliers)
- Make it as easy as possible for customers to buy from you (e.g. make the purchase process as quick and straightforward as possible).
- Make it difficult for customers to compare prices across the various competitors (important where the business does not provide the cheapest product in the market) for example by:
 - Avoiding price comparison sites
 - Introducing confusing pricing policies (e.g. Mobile / cell phones, Utilities Industries)
- Make it easy to compare prices (important where the business provides the cheapest product in the market) by:
 - Providing details to price comparison sites
 - Encouraging transparent pricing policies
- Make customers aware of the benefits of the product or service through marketing and advertising / public relations campaigns. Specify the types of marketing campaign (including Search Engine Optimisation) that you will use:
- Advertise / Market to the customers' customers so that they will put pressure on your customers to buy your products / services (e.g. Intel, Teflon, Dolby, NutraSweet, Lycra).
Specify medium for pursuing this strategy.....
- Make product / service available at location synonymous with the brand of the business
- Make product / service available at a convenient or memorable location (physical / digital)
- Make product / service available at a location that encourages impulse buying (e.g. near the store checkout for chewing gum)
- Form a consortium with other competitors (e.g. farmers join forces against supermarkets)
- Purchase a competitor in order to increase the range of product / service features
- Exploit demand side economies of scale by making potential users aware of your current user base (e.g. Facebook, eBay, Twitter, dating websites - See Video 1.4)

Specify any other possible strategies for dealing with this force not otherwise listed above:

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Supplier Strategies

To help the business reduce costs

- Reduce costs by providing Limited Product / Service Features (See Strategy Canvas for details)(See Video 2.4 - where are existing customers currently being overshot?)
- Maximise resource utilization (e.g. Southwest Airlines) – Use your assets as effectively and efficiently as possible.
- Design products for low cost manufacture
- Sell goods online (thereby dispensing with the need for expensive high street premises)
- Exercise Efficient Supply Chain Management - Just in Time production (synchronise the various activities of the business to reduce any waste - see Video 2.5).
- Grow the business (organically / acquisition) and generate supply side economies of scale
- Outsource aspects of development / production / delivery or any other activities to parts of the world where this is cheaper
- Outsource activities to other organisations who can them more cheaply
- Make it as easy as possible for the suppliers to supply to you
- Get the customers / end users to do some of the work for you (e.g. Supermarket self-checkout, Amazon Customer reviews, IKEA: self-selection, self-transport and self-assembly)
- Develop Automated Processes (For example:
 - Automated manufacturing processes (through production line technologies)
 - Automated ordering processes
 - Automated distribution and logistics)
- Standardise specifications for parts to make supplier switching easier (e.g. in car manufacturing)
- Purchase a supplier (vertical integration)
- Buy the cheapest possible components for your products
- Bind-in suppliers and prevent them from working with competitors (e.g. exclusivity agreements, restrictive covenants, garden leave clauses)
- Purchase a competitor and introduce synergies to reduce any duplication.
- Efficient manufacturing processes
- Efficient distribution processes
- Use Agents / Distributors to market / sell products / services for you (this can be useful when entering into a new market where you have limited knowledge or contacts and can avoid the need to employ staff)
- Integrate IT systems with suppliers
- Buy and sell derivatives to secure dependable prices (e.g. energy/commodities)

Specify any other possible strategies for dealing with this force not otherwise listed above:

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Competitor Strategies

To help the business overcome the competition

*(Please note that several of these strategies are identical / similar to **Customer Strategies** and **Supplier Strategies**. This is because, as well as dealing with these specific forces, these strategies will also ultimately provide a business with an advantage over the competition.)*

- Purchase a competitor to reduce competition
- Differentiate products / services from those of competitors by:
 - Providing a superior product or service in relation to certain features
Best described by the Strategy Canvas (See **Strategy Canvas** for full details)
 - Providing the cheapest product or service in the market
Best described by the Strategy Canvas (See **Strategy Canvas** for full details)
- Make it difficult to compare prices across the various competitors (where the business does not provide the cheapest product in the market) by:
 - Avoid price comparison sites
 - Introducing confusing pricing policies (e.g. Mobile carriers)
- Make it easy to compare prices (where the business provides the cheapest product in the market) by:
 - Providing details to price comparison sites
 - Encouraging transparent pricing policies
- Accentuate benefits of the product or service over the competitors through product packaging / marketing / advertising / public relations campaigns
- Shut out competitors by forming alliances with linked / complimentary businesses/organisations (e.g. Games developers)
- Bind-in suppliers and prevent them from working with competitors (e.g. exclusivity agreements, restrictive covenants, garden leave clauses)
- Purchase a supplier in order to shut out competitors (vertical integration)
- Develop a widely adopted technical / industry standard (e.g. Microsoft, Google (Android))
- Register, Enforce & Protect the business's key Intellectual Property Rights
- Retaliation Tactics (e.g. temporarily sell at a loss to price competition out of market)
- Tie customers in with long term agreements (e.g. Insurance, Gym Membership, Mobile)
- Make switching to competitors more difficult
 - Develop a wide network of users (so that the business can benefit from Demand Side Economies of Scale)(e.g. Facebook, Twitter)
- Develop a strong brand / reputation

Specify any other possible strategies for dealing with this force not otherwise listed above:

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Barrier Strategies

To help the business to raise barriers to entry and prevent new competition

- Develop a wide network of users (so that the business can benefit from Demand Side Economies of Scale - see Video 1.4)(e.g. Facebook, Twitter)
- Develop a strong brand / reputation
- Retaliation Tactics (e.g. temporarily sell at loss to put off new competitors from entering into the market)
- Shut out potential new competitors by forming alliances with linked / complimentary businesses/organisations (e.g. Games developers)
- Bind-in suppliers and prevent them from working with new competitors (e.g. exclusivity agreements, restrictive covenants, garden leave clauses)
- Purchase a supplier in order to shut out potential new competitors (vertical integration)
- Develop a widely adopted technical / industry standard (e.g. Apple (ios), Microsoft (Windows), Google (Android))
- Register, Enforce & Protect the business's key Intellectual Property Rights
- Tie customers in with long term agreements (e.g. Insurance, Gym Membership, Mobile)
- Make switching to new competitors more difficult
- Employ the best employees and prevent them from working for competitors with restrictive covenants and garden leave clauses (e.g. Microsoft, Google)
- Grow the business and introduce efficiencies that allow the business to spread its costs over products and services so that the business can benefit from Exploit Supply Side Economies of Scale
- Secure a favourable physical location

Specify any other possible strategies for dealing with this force not otherwise listed above:

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Alternative Strategies

To help the business deal with alternative (or substitute) products / services from other industries

(In dealing with alternatives, it can be helpful as a starting point to add the alternative products / services to the strategy canvas to compare them with your business and determine which needs they meet. As well as helping you deal with alternatives – this can also reveal new customer needs thereby providing new ways of differentiating your products or services from those of the competition.)

- Differentiate products / services from those of alternatives (see above) by:
 - Providing a superior product or service in relation to certain features
Best described by the Strategy Canvas (See **Strategy Canvas** for full details)
 - Providing a product or service to that provided by alternatives
Best described by the Strategy Canvas (See **Strategy Canvas** for full details)
- Add new product or services features so that the alternative is no longer deemed to be a valid replacement.
- Accentuate benefits of the product or service over alternative through: through product packaging / marketing / advertising / public relations campaign
- Adopt benefits provided by alternatives. Specify benefits to be adopted:
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- Enhance product features to ensure alternative is not determined to be a valid replacement (e.g. In the gym industry introduce: fitness classes & personal trainers) - so that buying home gym equipment is less of a valid replacement - see video 1.5)
- Tie customers in with long term agreements (e.g. Insurance, Gym Membership, Mobile)
- Make it difficult for customers to switch to alternative
- Customer Reward / loyalty Programmes (e.g., Store cards, Air Miles, Discounts for best Customers)
- Provide a range of complementary products or services
- Make it as easy as possible for Customers to buy from you

Specify any other possible strategies for dealing with this force not otherwise listed above:

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Exercise 3.1 – The Key Asset Map (Step 4 - Part 1)


A business will have to have the appropriate assets in place (referred to as key assets) in order to execute any Business Strategy. The **Key Asset Map** is where we set out those key assets.

(1) choose one of the **Business Strategies** that you selected in Exercise 2 and enter it into the box on the right hand side below (normally, of course, you would enter more than one strategy in the box on the right hand side. This is purely for the purposes of this exercise and the allocated time available).

(2) Specify which assets (in terms of its physical, financial, human resources, organisational assets (IP and third party agreements) and organisational processes) need to be in place in order to execute this strategy by completing the Key Asset Map in the left hand box below.

It is highly recommended that you read the **Key Asset Map Guidance Notes** which can be found in the **Workflow Resources** before drawing the Key Asset Map

Step 4 – Key Asset Map



**Step 3 – Business Strategies
Tool: Strategy Selection**

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Exercise 3.2 – Functional Strategies (Step 4 - Part 2)

Having identified the Key Assets the business will need to have in place, the business must then direct all of its energies to putting those Key Assets in place. This is Step 4 - Part 2 and can be achieved through the use of Functional Strategies.

There are 4 types of Functional Strategies.

Functional Strategy Type 1 - 'Use the financial assets that are currently in the business or generated in the normal course of business to buy key assets.'

Functional Strategy Type 2 - 'Obtain additional financial assets by raising finance through a grant, loan or investment. These financial assets can then be used to buy key assets in accordance with Functional Strategy Type 1.'

Functional Strategy Type 3 - 'Obtain additional financial assets by generating those finances in ways that are outside the business's normal course of business. These financial assets can then be used to buy key assets in accordance with Functional Strategy Type 1.'

Functional Strategy Type 4 - 'Enhance the existing assets in such a way that they are transformed into key assets.' *(Please see the list of questions on **pages 13 – 17 of this document**. Also please see the **Functional Strategy Guidance Notes** which can be found in the **Workflow Resources**.)*

It will normally be necessary to combine a number of Functional Strategies in order to put the Key Assets in place.

Exercise

Bearing in mind the assets currently available to you and the different types of functional strategies and how they should be combined, describe (on the next page) the various actions that your business could take in order to move it from where it is now in order to put the Key Assets in place. Whilst you can set this out diagrammatically (as seen in Video 2.7) you are asked to do this in narrative terms for this exercise. You may wish to add additional actions if necessary.

Action1

Action 2

Action 3

Action 4

Action 5

Exercise 3 – Additional Comments

Further note on Functional Strategy Type 4

‘Enhance the existing assets in such a way that they are transformed into key assets.’

To help get the best out of existing assets there is a series of questions that we can ask in relation to each classification of asset.

1. Physical Assets

- Are all of the physical assets (including all of the equipment) aligned to the overall strategies of the organisation and are they being used as effectively and efficiently as possible? What changes could be made internally to ensure that the physical assets match those shown within the Key Asset Map?
- What message is the organisation trying to convey via its buildings and offices to its customers, suppliers and employees? Do they reflect the uniqueness of the organisation? How could the buildings / offices be modified to ensure they give the right impression?
- Are the buildings conducive to the types of work required by the organisation? Is it possible to reconfigure the existing layout of the offices in such a way as to reflect and support the overall objectives of the organisation. For example:
 - If collaboration and interaction between co-workers is important within the organisation
 - What changes could you make to the layout of the building or offices in order to create formal as well as informal meeting areas so as to support this?
 - if the organisation is reliant on innovation - how could the layout of the offices be modified to:
 - help facilitate collaboration and the cross-fertilisation of ideas; and
 - incorporate quiet study areas?

Specify any ways in which the existing physical assets could be enhanced so that they are transformed into Key Assets (as listed in Step 4 - Part 1(above)).

2. Human Resources

In order to have high quality staff members, an organisation will have to select and recruit the right people in the first place. Selection and recruitment fall under the heading of **Functional Strategy Type 1**. However, it will normally be possible to further enhance the quality of the staff members within an organisation - but in order to achieve this it is important that we appreciate that employees perform at their very best only when:

1. They have the knowledge and skills to perform their tasks (**Ability**)
2. They are motivated to do so (**Motivation**)
3. Their work provides them with the opportunities to utilise their knowledge and skills in ways that will benefit the organisation (**Opportunity**)

(Ref: Strategy and Human Resource Management by Peter Boxall & John Purcell, Palgrave Macmillan)

Each of these is explored in more depth below:

a) Ability

In order to ensure that each employee has the requisite abilities to perform at their very best it can be useful to ask them the following questions:

- Do the skills you currently have match those required of you in your current role? If not, is there any additional training you could receive that will help in your work?
- Is there any information relating to the organisation itself or in terms of where it is headed or in terms of the external environment in general that could be useful in helping you perform your tasks?
- Are there any training courses that could help you in your role?

Put yourself in the shoes of an external management consultant. What kind of questions would you ask that will reveal those factors that could enhance the ability of employees in the organisation?

b) Motivation

In order to ensure that everyone in the organisation is fully motivated, an organisation will need to ask itself how its reward programmes could be improved to help to get the best out of its people.

As a general rule, financial rewards can help an organisation to recruit and retain good people. Nevertheless, after a certain level of hygiene, an increase in pay will often only lead to a temporary improvement in performance.

However, other factors also play a role in motivating employees. For example, employees in certain roles are often motivated to perform well when their work provides them with meaning, purpose and fulfilment and offers them some kind of significant mental stimulation.

It is always essential for an employer to identify what it is that drives their staff members. This can often be achieved by asking employees questions such as:

- *Which aspects of your work do you find to be the most meaningful, fulfilling, satisfying, challenging or exciting?*
- *What really motivates you?*
- *What is propelling you forward?*
- *What most attracted you to your present work in the first place?*
- *What do you want your achievements to be?*

Put yourself in the shoes of an external management consultant. What kind of questions would you ask that would help reveal the factors that motivate the employees in your organisation?

c) Opportunity

Individuals must also be provided with the opportunity to fully express their energies, skills and talents in a manner that is consistent with what the organisation is trying to achieve. To help to ensure each employee has the requisite opportunities, they should be asked questions such as:

- Which of your skills do you feel that if you were to fully utilise, you could help your team / department better execute its strategies? If so, is there anything that the organisation could do to unlock this potential?
- Is there anything you would like to be able to achieve in your work but feel unable? What would need to happen for this to become possible?
- What would stretch and challenge you?
- Are you being provided with the appropriate equipment and a working environment that helps you to perform at your very best?

Put yourself in the shoes of an external management consultant. What kind of questions would you ask that would help reveal steps that could be taken by the organisation to ensure that everyone has the opportunity to perform at their very best?

Consider if there are any ways in which the existing human resources could be enhanced so that they are transformed into Key Assets (as listed in Step 4 - Part 1(above)).

3. Organisational Assets

Organisational assets include agreements with third parties, intellectual property and software. Each of these is dealt with separately below:

a) Agreements with third parties

Strategic resources often lie beyond the boundaries of the organisation itself. These can often be accessed through agreements with third parties. To help ensure that an organisation is getting the most out of its agreements with third parties we can ask questions such as:

- How could agreements with third parties be utilised to help execute the Business Strategies (e.g. Bic Biro's agreements with the supermarkets ensure pens are kept by checkouts to encourage impulse buying; and South West's agreements with the airports ensure fast turnaround times and therefore efficient use of its assets).
- How could the organisation work more closely with those third parties with which it already has agreements - for example: would it be possible to synchronise IT systems to ensure efficient working practices?
- Are there any other ways in which you could partner / share strengths with another organisation in order to execute your Business Strategies in a superior manner to the competition?

b) Intellectual Property

- Has the organisation fully protected its intellectual property?
- Is there any intellectual property owned by the organisation that could be better utilised?
- Do you feel that the organisation's logo, trade mark and marketing materials are consistent with image the organisation wishes to convey?
- Is there any other material that is protected by copyright that could be used more effectively by the organisation or which could be licensed to third parties?
- Is there any material that could be patented by the organisation? Could the organisation licence any of its software / patents to third parties?

c) Software

Software can improve an organisation's operations with regards to speed, productivity, efficiency, cost reduction, administration and enhanced customer services. The following questions can be asked to help to ensure that an organisation is getting the most out of its software:

- *Is the software being used as effectively as possible?*
- *Are there any measures the organisation could take to ensure that the software is being used as routinely as it should be?*

- *Does everyone know how to use the software? Would training in its use help staff to use the software more effectively?*

Consider if there are any ways in which the organisational assets (including: agreements with third parties, intellectual property and software) could be enhanced so that they are transformed into Key Assets

4. Organisational Processes

Processes are organisational routines, habits and systematic ways of working that can be both formal and informal. Processes are commonly overlooked as being a potential source of an organisation's competitive advantage. However, they can be key to its success. For example Amazon's success is reliant on its efficient supply chain management processes that ensure that its orders are carried out in an efficient and timely manner.

Accordingly, processes should be linked with all of the other Key Assets to ensure they are being used in the best way possible to execute the various Business Strategies.

In relation to this an organisation should ask itself what processes can be developed to:

- Help the organisation differentiate itself from its competitors in accordance with the Strategy Canvas?
- Ensure that the organisation operations are fast and responsive to customer needs?
- Enhance quality and ensure that products are error free and appropriately designed?
- Improve efficiency and reduce costs?
- Help to ensure that all aspects of the physical assets are being used as effectively and efficiently as possible?
- Help to ensure that each member of staff uses their time as effectively and efficiently as possible?
- Help the organisation to work more effectively with third parties?
- Help to ensure that software is being used as effectively and efficiently as possible?

Specify any ways in which the organisation's processes could be enhanced to get the best out of each of the assets and ensure that they are transformed into Key Assets

Combining Functional Strategies

As specified in video 2.7 – it will normally be necessary to combine a number of Functional Strategies in order to put the Key Assets in place.

Reminder of the key principle: An organisation should never be defined by its current set of assets - rather an organisation should be defined by:

- *What it wants to achieve within its market; and*
- *How it uses its assets to make that goal a reality.*