CHAPTER 2

Development of the Strategic Business Unit *Competitive Strategy*

<< Insert Corporate Name >>

<< Insert SBU NAME >>

COMPETITIVE STRATEGY

CONFIDENTIAL

Date of Report: / /

By:

THE SBU COMPETITIVE STRATEGY DOCUMENT

Discussion

The Strategic Business Unit (SBU) Competitive Strategy template document should be used by a single business, either a stand-alone business or a business unit within a larger corporation.

The SBU planning document should represent the most up-to-date thinking on the strategy of the business. It should be written by, or at least fully supported by, the person(s) responsible for the success of the business.

The cover page format shown on the opposite page can be used by any business. In practice, the cover page is surprisingly important for two reasons. First, the quality of the printing on the top page is the first impression readers will have of the plan. Using a bold font suggests a bold plan. Second, the name(s) printed on the cover signal the political weight of the document. A strategic planner delegated to write the strategic plan should still seek to put, on the cover, the name of the person in charge of the business (such as the chief executive officer or the business unit manager).

Document Conventions

Within the SBU template document, there are two types of situations in which words are set apart with angle brackets "<<   >>."

1. In the first case, where a phrase begins with the word "Insert," the phrase should be read with the appropriate name from your business. For example:

<< Insert SBU Name >>	The name of the business unit developing the competitive strategy.
<< Insert Industry Name >>	The name of the industry in which your business competes.
<< Insert Business Group Name >>	The name of the organizational division in which the business operates. (If analyzing a stand-alone business, ignore this or use the SBU name.)
<< Insert Corporate Name >>	The name of the corporation. (If analyzing a stand-alone business, ignore this or use the SBU name.)

2. In the second case, where the phrase begins with the word "choose," the angle brackets indicate that a selection is required. For example: "<< Choose one: very high; high; medium; low; very low >>" would indicate that one of the choices listed in the angle brackets should be selected (and the other information should be deleted).

PURPOSE OF THIS DOCUMENT

The purpose of this document is to put forward the competitive strategy of << Insert SBU Name >>.

Document Format

The EXECUTIVE SUMMARY presents a brief overview of the << Insert SBU Name >> business.

PART I presents an analysis of the << Insert Industry Name >> industry.

PART II presents << Insert SBU Name >>'s mission, objectives, positioning, strategy, action plans, financial statements and more.

In conclusion, Appendix A presents a glossary and a list of abbreviations.

Other Relevant Documents

Industry and government documents which are relevant to understanding the << Insert SBU Name >> business include:

*
*
*
*
*

Other << Insert SBU Name >> documents relevant to understanding the business include:

*
*
*

Other << Insert Corporate Name >> documents relevant to understanding the << Insert SBU Name >> business include:

*
*
*
*
* << Insert Business Group Name >> Group Strategy
* << Insert Corporate Name >> Competitive Intelligence Report
* << Insert Corporate Name >> Annual Report.

PURPOSE OF THIS DOCUMENT

Discussion

This section explains to the reader the purpose of the SBU Competitive Strategy document (which is to put forward the competitive strategy of the business).

This section also describes the format of the document and lists other relevant documents.

Document Format

From a logical viewpoint, the SBU template document is divided into two major parts. The first part presents an analysis of the industry as if it were developed by a business professor or Wall Street analyst. The second part of this SBU template document presents the competitive strategy of the business.

For very practical reasons, the design of the SBU template document incorporates a few modifications to the basic theme of dividing it into the two major parts just discussed. These modifications include:

1. At the beginning, an executive summary is included to highlight the key aspects of the competitive strategy. This addresses the practical issue that not all recipients of the SBU competitive strategy will have the time to read the whole document. Most CEOs and presidents of large corporations want each business unit to have a clear and thorough strategic plan, but they themselves often prefer to read just the executive summary.

2. At the end of the SBU document a glossary and a listing of abbreviations are presented to help the reader with the terminology of the industry and the jargon of the various professional disciplines within the business.

Other Relevant Documents

Another goal of this page is to list other relevant documents that the reader should be aware of, both industry documents and other corporate documents. Industry documents may include recent or noteworthy textbooks that best describe the industry; industry reports from Wall Street industry analysts; industry surveys; and more. Other business unit and corporate documents often include marketing analyses; customer survey results; legal and tax documents; product user guides; advertising literature; annual reports; and more.

In practice, listing all other relevant documents is helpful for two major reasons. First, anyone involved in writing or reading the SBU Competitive Strategy document will have a clear sense that all relevant information known about the business and the industry is either in the strategy document itself, or is contained in one of the documents listed on this page (or the information does not exist).

Second, just listing the other business unit and other corporate documents suggests how the other documents are linked or should be linked. For example, a business unit within a corporate division should plan within the context of the division's plan and within the context of the corporate plan.

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TABLE OF CONTENTS

Discussion

The purpose of the table of contents is to list the sections of the SBU Competitive Strategy document.

Each section starts on a new page. The document (including the table of contents) is easy to customize by adding and deleting sections.

In practice, it is helpful to remember that although every section is important, not all sections are of equal importance. The whole document does not have to be completed on day one either. The executive summary and the one page industry segmentation matrix represent the most important aspects of the strategy document.

The framework outlined by the table of contents should remain intact as much as possible. Maintaining the framework facilitates the process of building a strategic database of information simply because it is a structured repository for the information as it becomes available. It is important to know what one knows; and it is also important to know what one doesn't know.

If you are the president or corporate strategic planner of the corporation and your goal is to get all business unit managers to develop a strategic plan, there will be a tremendous benefit to the corporation if the same basic table of contents is used for each business.

Because of the perceived effort required to adequately develop a business plan, a common mistake made by many companies, in a counter-productive effort to simplify the planning process, is to lump small yet distinct businesses together. This is a big mistake. It is far better to keep separate businesses separate, *even if their strategic plan is only one page.* (In the case of the one-page business strategy, the top half of the page should analyze the industry; and the bottom half should reflect the SBU's competitive strategy and action plans including required resources.)

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY OVERVIEW

The size of the << **Insert Industry Name** >> industry is approximately $ in annual revenue for all competitors. This year's annual revenue for << **Insert SBU Name** >> is expected to be $ and earnings will likely be $ before taxes.

<< Insert Industry Name >> firms provide.....

.... is the industry market share leader with $ million in annual revenue, representing % of the market. Other competitors with significant market share (an important though not necessarily the best measure of success) include: .... with XX %; .... with XX %; .... with XX %; .... with XX %; .... with XX %; .... with XX %; .... with XX %.

Critical success factors facing all competitors in this industry include:

<< Insert SBU Name >>'s *competitive advantages* include:
1.
2.
3.

<< Insert SBU Name >>'s *competitive disadvantages* include:
1.
2.
3.

Our preferred strategy is ......

Conclusions:
1.
2.
3.

Next Steps:
1.
2.
3.

EXECUTIVE SUMMARY

Discussion

The executive summary presents a brief overview of the industry and the competitive position of the business, as well as a table of vital statistics regarding the business and the industry.

In practice, especially in companies with over ten business units, the executive summary should be extremely well written and clear not only because it is the first section read, but because of the real possibility that not all corporate executives will find the time to read any more than the summary itself.

Executive Summary Overview

The executive summary overview should be brief and to the point. Because it is somewhat redundant to the information presented later in the document, the overview should be no longer than one or two pages.

The overview should include a brief definition of the industry as well as the following key information:

1. Industry market share leaders;
2. Critical success factors facing all competitors in this industry;
3. Competitive advantages of the business unit, in priority order;
4. Competitive disadvantages of the business unit, in priority order;
5. A one sentence statement clarifying the strategy of the business;
6. Conclusions about the business and its environment;
7. The next steps the business plans to take to maximize results.

The information presented in the executive summary should correspond with the more complete information presented later in the document.

BUSINESS UNIT AND INDUSTRY VITAL STATISTICS

Business Unit Vital Statistics

Business Unit Manager____________________
  Total Number of Full-Time Employees Reporting to Business Unit Manager___
  Total Number of Full-Time Employees Applied from Other Areas________
Total Number of Full-Time Employees Applied to this Business Unit________
1996 Profit & Loss Analysis
  1996 Revenues____________________ $
  1996 Expenses____________________ $
  1996 Pre-tax Profit____________________ $
  1996 Return on Investment (ROI)____________________ %
1996 Net Income (before tax) Per Employee____________________ $
Number of Customers____________________
Competitive Strategy____________________
  Competitive Advantage One____________________
  Competitive Advantage Two____________________
  Competitive Advantage Three____________________
Relative Competitive Position in Revenue____________________
Relative Competitive Position in Market Share____________________
Relative Competitive Position in Earnings____________________
Relative Competitive Size in Terms of Number of Employees____________
Degree of Information Technology Operational Dependence__________
Degree of Credit Risk Exposure____________________
Year << Insert SBU Name >> Formally Entered the Business__________
Shareholder Value of << Insert SBU Name >> as a Stand-Alone Business_______ $
  Present Value (PV) of 10-year Discounted Cash Flow__________ $
  PV of Residual Sale Value after Ten Year Period__________ $
PV addition to Other Corporate SBUs by << Insert SBU Name >>__________ $

Industry Vital Statistics

Current Industry Attractiveness____________________
1. Competitor Rivalry____________________
   Number of Significant Competitors____________________
   Current Rate of Industry Growth in Revenues____________
2. Threat of New Entrants____________________
3. Threat of Substitutes____________________
4. Customer Power____________________
5. Supplier Power____________________

Year Industry Evolved____________________
Estimated Number of Industry Customers____________________
Industry Revenue____________________
Industry Profitability____________________
Industry Return on Equity____________________
Global Competition Experienced by Industry____________________

BUSINESS UNIT AND INDUSTRY VITAL STATISTICS

Discussion

In the same way that the U.S. economic indicators represent a simple means to quickly gauge the health of the U.S. economy, this page of vital statistics is meant to quickly measure the health of the business unit and the industry.

The financial indicators listed in the template on the opposite page are the ones most commonly used for most businesses and most industries. The listing shown should be viewed as a starting point; and it should be customized to the needs of your business. In most cases, this involves simply adding a few industry specific line items. In other industries, however, the line items need to be changed altogether. For example, in a property and casualty insurance company it may be more appropriate to use the following financial indicators:

Net Written Premium
Net Earned Premium
Losses
Loss Adjustment Expenses
Underwriting Expenses
GAAP Income (pre-tax)
Accident Year Combined Ratio
Accident Year Loss Ratio
Accident Year Loss Adjustment Expense Ratio
Underwriting Expense Ratio
Underwriting Cash Flow (Calendar Year)
Investment Income from Premium, Present Value
Investment Income from Surplus, Present Value
Pre-tax Total return, Present Value
Return on Equity

The big picture is that on one page the most important measures of the health of the business and industry should be presented. In a corporation with many businesses there is an additional benefit to be gained if the corporation is able to agree on a common format. The added benefit is the establishment of a solid foundation for a *strategic* information database.

In practice, the implementation of a corporate strategic database will be facilitated if business unit managers are provided with a selection of consistent choices. For example, the industry vital statistics line item "Threat of New Entrants" is defined in the glossary as:

THREAT OF NEW ENTRANTS - one of the five industry forces which defines industry structure (and profitability potential). The fewer and less potent the barriers to entry are, the easier it is for firms to enter the industry and capture some of the industry's profitability, if any exists. Examples of barriers to entry include: economies of scale; proprietary product differences; brand identity; switching costs; capital requirements; access to distribution channels; cost advantages independent of scale; government policy; and expected retaliation. [Source: Michael E. Porter, *Competitive Strategy*] (For scoring Threat of New Entrants, use: Very Low (5); Low (4); Moderate (3); High (2); Very High (1).)

Note that the pre-selected "valid" choices for scoring are given as well. Using this optional procedure facilitates a common language throughout the corporation. Each choice is also assigned a numerical score to facilitate the creation of an automated corporate strategic database, if desired.

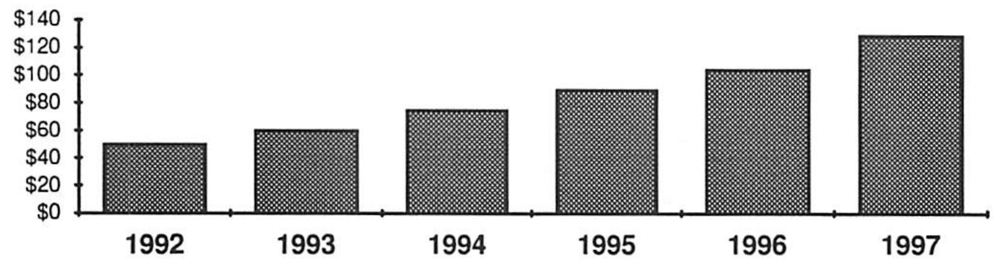
PART I

INDUSTRY ANALYSIS

INDUSTRY OVERVIEW

The << Insert Industry Name >> industry is....

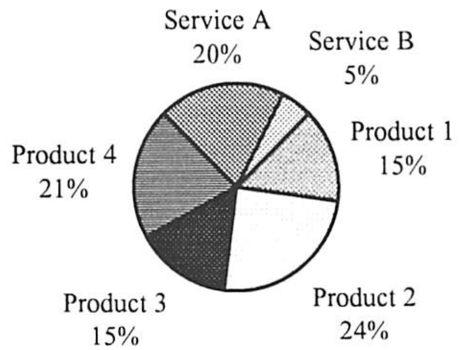
INDUSTRY SIZE IN REVENUE



Buyers include....

Product varieties include....

INDUSTRY PRODUCTS AND SERVICES



The geographic scope of this industry includes....

Complementary products and services which are often used in conjunction with this industry's products include....

PART I - INDUSTRY ANALYSIS

Discussion

Understanding the industry is the starting point for any business strategy. The goal of Part I of this template document is to provide an objective analysis of this industry.

INDUSTRY OVERVIEW

The purpose of this section is to present an overview of the industry. It is highly recommended that the overview be kept to one or two pages. A planning document, like most documents, should only be as long as necessary and no longer.

Besides providing a general description of the industry, it is important to clearly identify the scope of the industry. This is not always easy.

Industry consultants and newspapers frequently site *precise* figures on industry size and market share by competitors, as if the industry definition were perfectly clear. But especially in non-manufacturing industries it is rare for the industry definition to be clear at all. This is because globalization and advances in technology have blurred the boundaries of most industries. Knowing the exact size of an industry is not always critical. But it is important to clearly define the industry and monitor the growth trends taking place.

Defining the scope of an industry includes a description of what is to be included in the industry, and what is not. Industry scope needs to be defined in terms of what products and services are included, what buyer types are included, and what geographical areas of the world are included. It is also helpful to identify complementary products which are not part of the industry.

Complementary products to the industry are defined as those products not part of this industry but used in conjunction with the products of the industry. Complementary products help promote the sale of the industry's products (the opposite of a substitute product). For example, auto loans are a complementary product to the car industry. A compact disc is a complementary product to the CD player industry.

The industry overview should be written as if written by a Wall Street analyst or a business professor. A common mistake in the development of many strategic plans is that the 'industry analysis' is too narrowly defined in terms of the business unit's position within the industry, and too biased in terms of the business unit's subjective view of the industry. An industry's products and customer types and geographic scope usually extend beyond the focus of the business unit; and industry surveys are usually more reliable than the subjective opinions of the business unit management team.

In practice, it is sometimes helpful to initially write the industry overview without mentioning the name of the business unit developing the competitive strategy. This will ensure that the discussion is really about the industry and not just the position or subjective views of the business unit.

INDUSTRY TRENDS: KEY SUMMARY HIGHLIGHTS

The most important trends facing the << Insert Industry Name >> industry are outlined below. Although the next section discusses these and other trends in more detail and in concert with their impact on industry structure, the listing below is presented to highlight the *most* significant trends, as well as to isolate economic and technology trends in order to facilitate further analysis by specialized functional areas within << Insert Company Name >>.

The following are key external trends which are important to understanding the industry dynamics:

* << Insert Industry Name >> industry trends:
  -
  -
  -
  -
  -
  -
  -

* Economic trends which significantly effect this industry:
  -
  -
  -
  -

* Technology trends which significantly impact this industry:
  -
  -
  -

INDUSTRY TRENDS: KEY HIGHLIGHTS

Discussion

The purpose of this section is to highlight significant trends facing the industry. *In theory*, this section should not be necessary because the following section represents a more complete industry analysis, and everything listed on this page should be reflected in the following section. *In practice*, however, this section is very useful for three reasons.

First, by listing only the most important industry trends, on one page, the big picture is not lost in the details.

Second, it is very easy for business managers, product managers, strategic planners, and every other member of the firm to contribute to the list of trends. The listing is easy to compile, easy to modify, and it serves as useful input to the next section.

Third, by isolating economic and technological trends from other industry trends, the process of communicating with other professionals in those disciplines is simplified. For example, in a large corporation with numerous business units and a centralized information systems department, the ability to read from and add to the list of information technology trends which impact the industry is an effective means for the information systems department to offer its expertise where it will have the most impact on the business.

When identifying economic and technological trends, it is important that the trends are, in fact, relevant to the business, and not just a general list of economic and technological trends. Long-term interest rates and image processing are both important, but not necessarily important to every business.

Examples of industry trends which affect the Mexican business forms industry include:
- Customer demand has been increasing as expectations for improved business conditions increase in the NAFTA era. Customers want a greater variety of choices, higher quality products and better service.
- Many business forms competitors are in a weak financial state, some near bankruptcy. In the last few years, most competitors have not been able to re-invest in new equipment.
- The industry is operating at only about 65% of capacity. Individual competitors, in order to boost volume and fill their own unused capacity, have engaged in destructive pricing, resulting in poor margins and below average returns for all industry competitors. Most competitors have not been able to raise prices over the last three years.

Examples of economic trends which affect the U.S. superstore industry include:
- The general health of the U.S. economy as measured by GNP is growing at 4%, increasing demand;
- Interest rates continue to be fairly low and stable which is important for internal growth and acquisitions;
- U.S. credit card interest rates continue to average a relatively high 17%, suppressing demand;
- The number of new start-up businesses in the U.S. grew by 6% last year which helped increase demand.

Examples of technology trends which significantly impact the global options software development industry:
- The number of option traders who use a PC connected to a LAN continues to grow;
- The amount of data and the number of financial data feeds that traders access continues to increase with advances in communications technology;
- Advances in multimedia technology have increased the use of multimedia in options training courses;
- New, faster chip designs and continued improvement in disk capacity continue to allow developers and users of option software to use more sophisticated formulas and greater amounts of historical data.

INDUSTRY STRUCTURE ANALYSIS SUMMARY

A summary of the << Insert Industry Name >> industry structure analysis is presented below. It explores the attractiveness of the << Insert Industry Name >> industry for long-term profitability and the factors that determine it. The overview describes the state of competition in terms of the five basic industry competitive forces[1] listed below:

1. **Intensity of Rivalry Among Existing Competitors**
2. **Threat of New Entrants / Barriers To Entry**
3. **Pressure from Substitute Products**
4. **Bargaining Power of Customers (Channels and End-Users)**
5. **Bargaining Power of Suppliers.**

1. Intensity of Rivalry Among Existing Competitors

Rivalry in this industry can be characterized as << choose one: Polite; Slightly Competitive; Moderately Competitive; Very Competitive; Brutally Competitive >>. Some of the interacting structural factors which influence competitive rivalry include:

* *Industry Growth* - the growth stage of the << Insert Industry Name >> industry can be described as << choose one: Growing Rapidly, Growing, Maturing, Declining, Declining Rapidly >>.

* *Product Differences* - Competitors' products differ in that.... The trend in product/service features is towards.... Besides differences in features, pricing differences and trends in pricing can be described as....

* *Concentration and Balance* - there are approximately << Insert Number >> competitors in this industry. However, the top << Insert Number >> competitors account for << Insert Percentage >> of the industry's total revenue. The trend in the number of competitors can be described as....

* *Diversity of Competitors* - Competitors are different in that some competitors.... The diversity of competitors will likely....

* *Fixed Costs* - are << choose one: very low, low, moderate, high, very high >> in relation to variable costs. There is << choose one: little, some, moderate, high, very strong >> pressure for some competitors to employ long-term destructive pricing to self justify high fixed costs.

* *Exit Barriers* - are << choose one: very low, low, moderate, high, very high >> because....

Rank	Existing Competitor	Estimated Annual Revenue	Estimated Market Share	Cumulative Share
1.		$	%	%
2.		$	%	%
3.		$	%	%
4.		$	%	%
5.		$	%	%
6.		$	%	%
7.		$	%	%
8.		$	%	%
9.		$	%	%
10.		$	%	%

[1] Porter, M., *Competitive Strategy*, The Free Press, 1980.

INDUSTRY STRUCTURE ANALYSIS SUMMARY

Discussion

Some industries are more profitable than others, and industry profitability can change over time. The purpose of this section is to understand the factors which drive industry profitability.

This section is not always easy the first time out. But the logic of Michael Porter's industry structure analysis is too compelling to ignore. The bright side of this analysis is that it gets easier to use with practice. Once you feel comfortable with the methodology, it becomes a useful tool that facilitates a quick yet thorough analysis of *any* industry. The methodology also exposes the weakness of any industry analysis that omits a discussion of one or more of the five industry forces (shown at the top of the opposite page).

Each of the five industry forces is presented with several bullet items which represent the most frequent factors which influence that industry force. In most cases, the bullet items begin with a partially completed sentence followed by a series of periods (....) to be replaced with the appropriate industry characteristics.

As will be mentioned several times in this section, each of the bullet items is defined in the glossary.

Not all of the key factors listed within each of the five forces may be important or relevant to your particular industry. Deleting that paragraph may be appropriate.

In a large corporation, however, it is usually better to leave the framework in tact for three reasons. First, management reviews and cross business unit information sharing are greatly enhanced with a common format. Second, management changes are facilitated with the use of a common format. Third, just indicating that a particular industry factor has no influence in your industry is important information in itself.

Intensity of Rivalry Among Existing Competitors

Different industries experience different levels of competitive rivalry. The factors which cause this include:
- Industry growth;
- Product differences;
- Concentration and balance;
- Diversity of competition;
- Fixed costs;
- Exit barriers.

Each of these terms is defined in Appendix A of this book. The partially completed paragraph entries on the opposite page are designed to facilitate thinking and writing about competitor rivalry. For example:

> *"Concentration and Balance"* [in the microprocessor industry] - There are four major competitors in this industry. In 1993, Intel accounted for 74% of the worldwide market; Motorola 8%; Advanced Micro Devices 6%; Texas Instruments 2%; and numerous competitors, each with less than 2% of the market, accounted for the remaining 10% of the global market. [Source: Dataquest] The trend in the number of competitors has been relatively stable, but the relative market share of the industry leaders is changing.

A listing of existing competitors along with their annual revenue and market share is also presented. The number of competitors to list should be based on the industry with the goal of listing all major competitors and potentially significant competitors.

11.		$	%	%
12.		$	%	%
13.		$	%	%
14.		$	%	%
15.		$	%	%
16		$	%	%
17		$	%	%
18		$	%	%
19		$	%	%
20		$	%	%
	All Other Competitors:	$	%	%
ALL	**Total Size of Market:**	$	100%	100%

2. Threat of Entry / Barriers to Entry

In relative terms, threat of entry into the << Insert Industry Name >> industry is << choose one: Very Low; Low; Moderate; High; Very High >>. Frequent sources of barriers to entry include:

* *Economies of Scale* - is << choose one: very low, low, moderate, high, very high >> because....

* *Proprietary Product Differences* - << choose one: is; is not >> a major barrier to entry. For standard << Insert Industry Name >> products, all competitors provide basically the same.... and there are few proprietary product differences. For non-standard offerings, such as....... a few competitors do have a unique offering which cannot be easily duplicated.

* *Brand Identity* - << choose one: is; is not >> strong enough that a new entrant << choose one: could; could not >> enter the industry and overcome lack of brand identity.

* *Switching Costs* - are currently << choose one: very low, low, moderate, high, very high >>. This is because....

* *Access to Suppliers* - << choose one: does; does not >> represent a barrier to entry. A new entrant's access to industry suppliers....

* *Capital Requirements* - are << choose one: very low, low, moderate, high, very high >> to become a << Insert Industry Name >> competitor and << choose one: do, do not >> pose a barrier to entry. The cost to enter the industry from a standing start would be .....

* *Expected Retaliation* - << choose one: is, is not >> a major concern for a new entrant. The << Insert Industry Name >> industry << choose one: acts, does not act >> in concert following an industry leader in retaliatory moves against a new entrant.

* *Government Policy* - << choose one: limits; does not limit >> a new entrant from entering the industry. Government regulations....

Potential competitors include....

INDUSTRY STRUCTURE ANALYSIS SUMMARY (Continued)

Discussion

In practice, there are numerous criteria which could be used regarding the ordering of competitors, although ranking by market share is most common because of data availability. Ranking by profitability would also be useful if the information is available. For highly fragmented industries with a large number of competitors, it is sometimes convenient to list competitors alphabetically or to lump together competitors that share similar characteristics and similar competitive strengths and weaknesses.

Threat of Entry / Barriers to Entry

Different industries are easier than others to enter. The factors which cause this include:

Economies of scale;
Proprietary product differences;
Brand identity;
Switching costs;
Access to suppliers;
Capital requirements;
Expected retaliation;
Government policy.

Each of the terms above is defined in Appendix A of this book.

Each of the paragraphs shown on the opposite page should be completed as appropriate to the business.

Each concept relating to barriers to entry should be discussed in terms of how easy or how difficult it would be for a start-up company or a company from another industry to enter this industry.

In practice, it is often helpful to pretend that you or someone you know will be starting a new business in the industry tomorrow. Think of all major tasks that must be done to simply enter the industry as a real player. Reality quickly sets in and entry barriers become more obvious, more time consuming, and more costly than previously envisioned.

When discussing each of the barriers to entry, it also helps to consider the advantages of starting a new business with a clean slate. For example, the technological changes that have taken place over the years make it fairly easy for a new competitor to redesign how the business should operate in order to outperform current competitors. One of the most common disadvantages facing existing firms is their dependence on 'maintenance programmers' that earn annual salaries of $50,000 to $100,000 per person (in New York) to keep old systems running. Many of these systems were written (in COBOL) over twenty years ago on mainframe computers. In many cases a new company could hire college graduates (or Russian scientists) who can build better systems on PCs for less than half the cost of maintaining the old system. Current competitors (with real people who have real families to support) are less flexible than a new company.

Following the analysis of entry barriers, a listing of potential industry competitors should be presented. Actual company names should be listed whenever possible because it brings to mind the real potential skills and resources that would be brought to bear. Foreign competitors, non-traditional competitors, and new start-up companies should also be listed because of their more likely use new technologies or different skills to outperform current competitors.

3. Pressure From Substitute Products

In response to price changes in << Insert Industry Name >> products, the quantity demanded by customers is << choose one: Dramatically; Significantly; Moderately; Slightly; Not >> affected (meaning, the price elasticity of demand is << choose one: very elastic; moderately elastic; unitary; moderately inelastic; very inelastic >>). The underlying reasons for this include:

* *Relative Price Performance of Substitutes -*

* *Customer Propensity to Substitute -*

* *Switching Costs Related to Switching to the Substitute Product* (not just another competitor) -

The most likely substitutes include......

4. Bargaining Power of Customers

The bargaining power of << Insert Industry Name >> customers can be described as << choose one: Very Low; Low; Moderate; High; Very High >>. The reason this situation exists is highlighted by the following:

* *Customer Concentration and Volume* - there are approximately << Insert Number >> customers willing and able to purchase products and services provided by the industry. The trend in the number of customers, and the size of their purchases can be described as.... Untapped markets include....

* *Customer Information* - customers have << choose one: a lot of; some; very little >> information necessary to compare true pricing and features of alternative competitors. This has....

* *Impact on Quality and Performance - ....*

* *Ability to Backward Integrate - ....*

* *Price Sensitivity of Customers - ....*

* *Channel Ability to Influence Buyer Purchasing Decisions - ....*

	INDUSTRY CUSTOMER TYPES	**End-User or Channel?**	**Approximate Number**	**Approximate Annual Revenue**
1.				
2.				
3.				
4.				
5.				
6.				
7.				
8.				
9.				
10.				

INDUSTRY STRUCTURE ANALYSIS SUMMARY (Continued)

Discussion

Pressure from Substitutes.

Industry substitutes are products and services that can be used instead of using the industry's products and services. For example, eye-glass manufactures have to beware of contact lens manufacturers and both have to monitor the progress of new laser-beam technology that can correct eyesight for certain types of eye disorders.

Structural factors which influence the relative attractiveness of substitutes include:
- Relative price performance of the substitutes;
- Switching costs;
- Customer propensity to substitute.

Michael Porter identifies four special substitutes which are present in most every industry and are often overlooked. They include: not purchasing anything at all; lowering the usage rate of the product required; using used, recycled, or reconditioned products; and backward integration.

For example, the more corporations that self-insure, the less insurance they purchase and the lower the industry demand for insurance services.

A listing of current and potential substitute products and services completes the analysis on industry substitutes.

Bargaining Power of Customers

Customers have a varying degree of bargaining power depending on the industry. Some of the underlying factors why this is so include the following:
- Customer Concentration and Volume;
- Customer Information;
- Impact on Quality and Performance;
- Ability to Backward Integrate;
- Price Sensitivity of Customers;
- Channel Ability to Influence Buyer Purchasing Decisions.

In some industries a channel (the intermediate buyer) distributes the product to the end user. For example, the supermarket is a channel for the purchase of breakfast cereals and hundreds of other products. The bargaining power of channels should be analyzed by using the same basic framework as used for end-users. If the industry you're analyzing doesn't currently use channels, and it is not practical to entertain the possibility that a channel could be used in the future, then leave the template shown on the opposite page as is. Otherwise, the analysis should be expanded by repeating the "Bargaining Power of Customers" analysis - only substitute the word "channel" for "customer."

The analysis of the bargaining power of customers is concluded with a listing of industry customer types. Each customer type should be listed with the approximate number of each and an identification of whether the customer type is an end-user, a channel, or both.

5. Bargaining Power of Suppliers

The bargaining power of suppliers to << Insert Industry Name >> firms can be categorized as << choose one: Very Low; Low; Moderate; High; Very High >>. The factors which most affect the bargaining power of suppliers include:

* *Impact of Inputs on Cost or Differentiation* - ....

* *Differentiation of Inputs* - ....

* *Supplier Concentration* - there are .....

* *Importance of Volume to Supplier* - for << Insert Input Name >>, the most important industry input, the volume purchased by this industry is << choose one: very significant; significant; not too significant >> which....

	INDUSTRY SUPPLIER TYPES	GENERAL COMMENTS
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		

INDUSTRY STRUCTURE ANALYSIS SUMMARY (Continued)

Discussion

Bargaining Power of Suppliers

Different types of suppliers have a varying amount of leverage vis-à-vis the firms in the industry. Within each supplier type different suppliers can also have a different amount of leverage.

The bargaining power of suppliers is affected by one or more of the following:
Impact of inputs on cost or differentiation;
Differentiation of inputs;
Supplier concentration;
Importance of volume to the supplier.

Each of the terms above is defined in Appendix A of this book.

Supplier power is generally greater when one or more of the following conditions is true:

1. The product supplied is of critical importance to building the product or providing the service.
2. There is only one supplier, or only a few suppliers with each supplier having a very different offering.
3. The volume of purchased inputs by industry competitors represents only a small percent of total sales to the suppliers.

The opposite circumstances would generally give suppliers less bargaining power. For example, suppliers are likely to have very little bargaining power if the product they supply is not unique, is of little importance to buyers, and is supplied by hundreds of suppliers.

A listing of suppliers along with a comment on each completes the analysis on industry suppliers.

INDUSTRY SEGMENTATION OVERVIEW (Industry Segmentation Matrix)

I N D U S T R Y   B U Y E R   S E G M E N T S

INDUSTRY PRODUCT VARIETIES	<< Buyer Type 1 >>	<< Buyer Type 2 >>	<< Buyer Type 3 >>	<< Buyer Type 4 >>	<< Buyer Type 5 >>	<< Buyer Type N >>
<< Product Variety 1 >>						
<< Product Variety 2 >>						
<< Product Variety 3 >>						
<< Product Variety 4 >>						
<< Product Variety 5 >>						
<< Product Variety 6 >>						
<< Product Variety 7 >>						
<< Product Variety N >>						

KEY for Existing and Potential (P) Industry Competitors:

▒ = Not Feasible

XX =	**XX** =	**XX** =
XX =	**XX** =	**XX** =
XX =	**XX** =	**XX** =
XX =	**XX** =	**XX** =
XX =	**XX** =	**XX** =

INDUSTRY SEGMENTATION OVERVIEW

Discussion

The purpose of this section is to divide the entire industry (the competitive playing field) into its strategically relevant parts, by product variety and buyer type, and to locate competitors within the industry segments in which they compete.

The rows of the industry matrix represent strategically relevant product varieties.

The columns of the matrix represent buyer types. Not all buyers are alike. The goal is to group the industry's buyers into the most strategically relevant categories based upon their needs and the cost of serving them.

In practice, many business managers define the industry matrix with only the buyer segments and product varieties they currently serve. It is important to include all industry buyer types and all product varieties served by *all* competitors. Better still, include potential new buyer types and potential new product varieties. To think of new product varieties, it is often helpful to imagine what new product an innovative and cash rich competitor could announce in five years.

Below the matrix should be a listing of acronyms of all current and potential competitors. For example:
HD = Home Depot   OM = OfficeMax   ST = Staples

For convenience, it is sometimes helpful to group similar competitors with a single acronym. For example:
MWC = Membership Warehouse Clubs

Within the matrix, place the acronym of the current and potential competitors in the appropriate segments. Potential competitors can easily be identified with a "(P)" following their acronym. For example, WW(P) could represent Woolworths as a potential competitor in a given industry segment.

For a stand-alone business, this critical exercise is fairly straight forward.

For a business unit operating within a large corporation, there is one common mistake that needs to be avoided. The buyer types for each corporate business unit should reflect the strategically relevant buyer types *for that unique industry.* For example, a company which competes in ten industries should have each of the ten SBUs independently develop an industry segmentation matrix reflecting its own unique buyer segmentation. Resist compromising on one company-wide segmentation scheme.

Practical suggestions for building an industry segmentation matrix are presented in Chapter 5 of this book. A detailed analysis is presented in Michael Porter's book *Competitive Advantage.*

INDUSTRY POSITIONING BY MAJOR COMPETITORS

The current industry positioning of each of the industry's significant competitors is highlighted below with each firm identified by their generic strategy.

Generic Strategy	Firm Name	Competitive Advantage or Focus
Cost Leadership Firms		
Target many industry segments; seek a competitive cost advantage in one or more activities.		
Cost Focus Firms		
Target one or a few industry segments; seek a competitive cost advantage in one or more activities.		
Differentiation Firms		
Target many industry segments; seek to be unique in one or more buyer criteria		
Differentiation Focus Firms		
Target one or a few industry segments; seek to be unique in one or more buyer criteria		
Stuck-in the-Middle Firms		
No clear strategy.		

INDUSTRY POSITIONING BY MAJOR COMPETITORS

Discussion

The purpose of this section is to summarize on one page the industry positioning by major competitors.

According to Michael Porter, there are four generic strategies which represent fundamentally different approaches to achieving competitive advantage. They are: *cost leadership* (broad focus, low cost); *cost focus* (narrow scope; low cost); *differentiation* (broad scope, differentiation); *differentiation focus* (narrow scope, differentiation). Firms which have no generic strategy are categorized as stuck in the middle.

Note that low cost refers to the firm's costs, and not to the firm's current pricing strategy. Also, there is nothing cheap about a low cost strategy. It simply means that the firm is smart enough to perform one or more significant activities at a relatively lower cost than competitors.

In practice, deciding on whether or not a firm has a focus strategy or a broad-based strategy needs to be determined within the context of the industry segmentation matrix. If a firm competes in only one or a few segments it, by definition, has a focus strategy.

Deciding whether or not a firm has (or should have) a differentiation strategy versus a low-cost strategy is fairly easy when the industry involves the building of a physical product. For example, a Rolls-Royce (differentiation focus) and an IBM PS/2 (differentiation) have more features and are superior in quality to the average car or PC.

When comparing offerings, it is important to consider *the entire offering,* not just the physical product itself. For example, some people think it's outrageous that the same suit, dress or coat can cost twice or three times the amount depending on whether you buy it on 18th Street, 34th Street or 50th Street in Manhattan. Location, amount of sales help, and return policy are just three dimensions of the total purchase that are significant enough that the pricing is, in fact, logical and rational at all three stores.

For some people, discussing alternative strategies is more difficult when a service is provided, or when the product is a non-physical one such as software or information. Although it might be more difficult to 'see' the differences between product offerings, the basic concept is the same: competitors usually offer a different level of features. Comparing the features provided by competitors is more complicated than drawing a normal curve that displays the number of features provided because more than one variable is at play. The big picture is that competitors differ in the degree to which they can meet the needs of the customers.

In discussing differentiation strategies, a situation which should be avoided is the one in which someone declares at the outset that "the industry is a pure commodity industry." It should be noted that bottled water is not a commodity industry. Sodas are not commodities. Cola sodas are not pure commodities. And if you think table salt is a commodity industry, read the Diamond Crystal label. It reads, in part, "If you look at Diamond Crystal Salt under a microscope, you will see that every grain has facets like a tiny diamond crystal. Unlike granulated salt which looks like plain cubes and bounces off your food, Diamond Crystal, the uncommon salt, has facets to cling."

If the powers that be still insist that the product or service is a pure commodity, it's helpful to remember that image and reputation, customer service, location, billing procedures and countless other variables can still be used to distinguish competitors.

INDUSTRY CUSTOMERS: Purchase Criteria & Activities Affected By This Industry

Listed below, *in order of priority,* are purchasing criteria (both use criteria and signaling criteria) which are important to << Insert Industry name >> customers.

1.
2.
3.
4.
5.
6.
7.
8.
9.
10.
11.
12.
13.
14.
15.
16.
17.
18.
19.
20.

Customer Decision Making Process Overview

The process most customers go through in making their purchase decision can be described as one in which...

Customer Activities Affected By This Industry

Listed below are activities performed by customers which are affected by the << Insert Industry Name >> industry.

1.
2.
3.
4.
5.

INDUSTRY CUSTOMERS:

Purchase Criteria & Customer Activities Affected By This Industry

Discussion

Most business managers believe it is critical to understand the needs of customers. But more than just a general awareness of needs, they should understand, *in priority order,* specifically what customers want.

Different customers have different needs. Some customers have more needs than others; some have the same needs but in a different priority order; and even those customers with the same needs and the same priorities have a different sense of how much they are willing and able to pay for the industry's products and services.

The purchase criteria listing in the template document is meant to reflect the priorities of the average customer in the industry. At first, one list seems difficult enough. In practice, however, especially when developed by a team, it is not only easy to develop one list of purchase criteria for the average customer, but it is fairly easy to develop several listings to distinguish between significantly different buyer types. Theoretically, it is desirable to have a separate listing for each buyer type identified earlier in the industry segmentation matrix.

Example of purchase criteria for two buyer types of automobiles:

Moderate income, middle-aged, suburbanites

1. Financing options
2. Fuel economy
3. Purchase price
4. Commercials and other advertising
5. Safety record and safety devices
6. Car salesperson knowledge
7. General performance & horsepower
8. Maintenance record
9. Seating capacity and trunk space
10. Car style, color and interior design

High School and College Students

1. Car style, color and interior design
2. Commercials and other advertising
3. Purchase price
4. Financing
5. General performance & horsepower
6. Number of days delay before delivery
7. Fuel economy

etc.

When developing a list of purchase criteria keep in mind that:

1) Price is not always the first purchase criteria (especially for customers with a pacemaker);
2) In industries where it is common to give customers gifts or to invite customers to conferences on a beautiful island, these practices should appear on the list of purchase criteria. (If they were not purchase criteria for either the initial sale or continued sales, they would not be done.)
3) It makes sense to survey current and potential customers (even though they might not always reveal their exact purchase decision criteria, like 'free' tickets to a football game or play).

Customer Decision Making Process Overview

In order to maximize sales, it is important to understand the process that customers go through in making their purchase decision. The key is to focus on the decision maker who is (almost always) a real person.

Customer Activities Affected By This Industry

Identify each customer activity affected by this industry's products and services for potential opportunities to better serve the customer. Besides customer activities which use the product or service directly, also include other activities indirectly affected (like accounts payable).

INDUSTRY STRUCTURE IN THE FUTURE

Key Industry Variables

Like all industries, the << Insert Industry Name >> industry is subject to change. Presented below are some insights on how the industry may look a few years from now. The analysis is divided into the following three parts:

1. Identification of the industry structure that will remain constant;
2. Identification of the industry structure that will change in a predetermined way;
3. Identification of the uncertainties facing the << Insert Industry Name >> industry.

Constant Elements of Industry Structure

Some things that will remain constant in the << Insert Industry Name >> industry include:

* Rivalry:
* Entry Barriers:
* Substitutes:
* Customers:
* Suppliers:

Predetermined Changes That Will Occur in the << Insert Industry Name >> Industry

Some of the changes that are fairly certain to occur within the << Insert Industry Name >> industry include:

* Rivalry:
* Entry Barriers:
* Substitutes:
* Customers:
* Suppliers:

Uncertainties Facing the << Insert Industry Name >> Industry

Some of the uncertainties facing the << Insert Industry Name >> industry include:

* Rivalry:
* Entry Barriers:
* Substitutes:
* Customers:
* Suppliers:

INDUSTRY STRUCTURE IN THE FUTURE

Discussion

Key Industry Variables

One of the most fascinating aspects of business strategic planning is the fact that there are no time outs. You can't ask the referee to stop the clock in order to study the situation. The competition will not be directed to sit down.

This situation leads to the conclusion that even if you perfectly analyze the industry as it exists at this moment, things change. And things are changing at a faster rate than ever before because of globalization, new technology and the cultural elimination of a weekly day of rest.

To effectively deal with rapid and ongoing change in the industry, this section of the SBU template document is designed to systematically address what the industry might look like in the future.

What changes, if any, will occur in each of the five industry forces? Specifically:

- How will competitor rivalry change?
- Who will enter and exit the industry?
- How will buyers and channels change?
- What new substitutes will affect the industry?
- What will happen to suppliers?

The better one answers these questions in order to understand what the future industry environment will look like, the better one can prepare to take advantage of the new industry dynamics. Thirty years ago, a sneaker was a sneaker, water was water, and there were no personal computers. Most industries will change dramatically and quickly.

Those elements of industry structure that will stay the same and those elements that will change in a predetermined way form the known part of the future industry structure. Uncertainties facing the industry give rise to a set of potential industry scenarios.

Revolutionary technological breakthroughs are very difficult to predict, and they fall in the uncertain category. However, many technological changes can be predetermined. For example, every year since PCs were invented, their price performance has continued to improve. This trend will continue. The ratio of PCs to people will keep going up for most corporations and for the general population as well.

Another example of a predetermined change is a law that has been passed and it (or portions of it) will take effect in the future. NAFTA, the North American Free Trade Agreement, is a good example. It regulates the lowering of trade barriers between the U.S., Canada and Mexico. Over the next ten years, tariffs will be lowered on specific dates by industry.

Uncertainties include things like: interest rates, unemployment rates, the general economic climate, the price of oil, new technological discoveries, war and peace, natural disasters, competitor moves, changes in buyer behavior, and most anything at all. However, only those uncertainties which would significantly affect the industry should be included in this analysis. The price of lumber is very relevant to the housing industry. It is not so relevant to the watch industry.

Potential Industry Scenarios

Using the most significant, uncertain variables listed on the previous page, three strategically different, potential industry structures are described below, along with the sources of competitive advantage under each scenario.

SCENARIO VARIABLES:

Scenario Variable 1:	Description:
Scenario Variable 2:	Description:
Scenario Variable 3:	Description:

SCENARIO I: << Insert Scenario Name >> — Probability of Occurrence:____ %

Scenario Variable 1:	Value:
Scenario Variable 2:	Value:
Scenario Variable 3:	Value:

Industry Structure Highlights:

Sources of Competitive Advantage:

SCENARIO II: << Insert Scenario Name >> — Probability of Occurrence: ____ %

Scenario Variable 1	Value:
Scenario Variable 2	Value:
Scenario Variable 3	Value:

Industry Structure Highlights:

Sources of Competitive Advantage:

SCENARIO III: << Insert Scenario Name >> — Probability of Occurrence: ____ %

Scenario Variable 1:	Value:
Scenario Variable 2:	Value:
Scenario Variable 3:	Value:

Industry Structure Highlights:

Sources of Competitive Advantage:

Competitor Influence on Industry Structure

Actions which if initiated by any competitor would most likely *improve* industry structure and therefore *benefit* all competitors include:

-
-
-

Actions which if initiated by any competitor would most likely *worsen* industry structure and therefore *weaken* the position of all competitors include:

-
-
-

INDUSTRY STRUCTURE IN THE FUTURE (Continued)

Discussion

Potential Industry Scenarios

Using the prior section as input, this section builds several scenarios of what the future industry structure might look like and what the key success factors would be in each.

The scenarios should be based on different values of the uncertain variables identified in the previous section.

For most businesses, identifying three or four alternative industry scenarios is sufficient to explore the key dynamics of the industry under different conditions.

The goal is to systematically consider how to best position the business for success in each environment.

Each scenario can be assigned a probability of occurrence. Theoretically, if every potential future industry scenario was identified and assigned a probability of occurrence, the sum of the probabilities would total 100%. Because there are an infinite number of possible industry scenarios, the sum of the probabilities of occurrence for the three or four representative scenarios chosen will represent less than 100%.

In practice, scenario building can be a useful process for building management consensus - even in organizations where egos and corporate politics pit one executive against another.

To best explore alternative scenarios, each executive should forecast at least one uncertain or unexpected event and discuss how the business should best position itself for success. The event should be of great magnitude regarding either the business unit, competitors, the economy, technology, or any other event that would significantly impact the business.

Competitor Influence on Industry Structure

By their actions, firms can change industry structure, sometimes for the better and sometimes for the worse. Each firm, especially industry leaders, should try to improve industry structure.

In practice, those companies which compete solely in terms of market share are usually the ones responsible for neglecting the health of the industry. Selling 1,000 units at $10 a piece is better than selling 1,100 units at $8 a piece, at least from the perspective of math teachers and shareholders.

Advertising that focuses on low price as the only differentiating factor can quickly lead to a price war and the general loss of industry profits.

Examples of actions that often but not always improve industry structure include: raising brand loyalty through increased advertising; raising switching costs through electronic linkages with customers; offering customers discounts on their next purchase; and raising prices.

INDUSTRY COMPETITOR ANALYSES

The industry competitor analyses includes the following:

* Competitor Comparison Table;
* Industry Competitor Analysis, By Competitor

COMPETITOR COMPARISON TABLE
(RANKED BY PURCHASE CRITERIA, COST STRUCTURE AND OTHER MEASURES)

EVALUATION CRITERIA	<< Insert SBU Name >>	Insert Competitor Number 1	Insert Competitor Number 2	Insert Competitor Number 3
Product / Service Quality				
Product Breadth & Depth				
Innovation / New Products				
Market Share				
Market Image				
Advertising & Direct Mail Programs				
Product Reliability				
Customer Service Quality				
Technical Knowledge of Sales Force				
Product Management Skills				
Hardware Architecture Position				
Software Architecture Position				
I/T Personnel Capabilities				
Organizational Effectiveness				
Employee Morale				
Employee Training				
Employee Retention Rate				
Pricing				
Annual Revenue				
Cost Structure Efficiency				
Annual Profit				
Margins				
Net Income Per Employee				

INDUSTRY COMPETITOR ANALYSES

Discussion

The two analyses presented in this section include a competitor comparison table and a more in-depth analysis by competitor.

Competitor Comparison Table

The competitor comparison table is an excellent method to compare your business with a few key competitors based on more than just revenue and market share data.

Most of the criteria listed on the opposite page will apply to any business. A few criteria might not be applicable to your business and should be eliminated.

On the other hand, there are likely to be additional criteria which are specific to your industry that should be added. For example, many items on the purchase criteria list (discussed earlier) should be added.

For strategy development it is especially important to compare your business with not only traditional competitors but with different, non-traditional types of competitors.

In practice, the sales and marketing department will often expand the competitor table to include all competitors and to lengthen the listing of evaluation criteria to include all factors which are relevant to winning the sale. This fairly simple table can become a powerful competitive weapon. A professional sales force will also be able to collect and update competitor information as well.

In most companies, competitor intelligence gathering and analysis is not coordinated. Many U.S. companies still do not employ dedicated competitive intelligence professionals. Some U.S. companies are not even familiar with the field. According to Timothy Powell, author of *Analyzing Your Competition,* the ideal competitive intelligence professional has a combined degree in business and library science, with a minor in computer technology. Powell believes that U.S. business students are not well trained in how to gather and use business information, and that U.S. executives tend to delegate competitive intelligence functions to low-level staff more than Japanese executives.

A quick way for companies and professionals to improve their method of building and using competitor information systems is through joining The Society of Competitive Intelligence Professionals, SCIP, an international organization of over 1600 members based in Washington, DC.

Another helpful organization is The Planning Forum which is based in Oxford, Ohio. The Planning Forum is a larger international organization of strategic planners and other professionals interested in a broad range of strategic planning issues including competitor analyses.

INDUSTRY COMPETITOR ANALYSIS, BY COMPETITOR

The following pages highlight significant information about the industry's competitors.

1. **COMPANY NAME:**
   Market Share & Annual Revenue:
   Target Market Segments:
   Basic Strategy and Tactics:
   Competitive Advantage(s), if any:
   Competitive Disadvantages, if any:
   Reputation:
   Pricing:
   Cost Structure:
   Other Information:

2. **COMPANY NAME:**
   Market Share & Annual Revenue:
   Target Market Segments:
   Basic Strategy and Tactics:
   Competitive Advantage(s), if any:
   Competitive Disadvantages, if any:
   Reputation:
   Pricing:
   Cost Structure:
   Other Information:

3. **COMPANY NAME:**
   Market Share & Annual Revenue:
   Target Market Segments:
   Basic Strategy and Tactics:
   Competitive Advantage(s), if any:
   Competitive Disadvantages, if any:
   Reputation:
   Pricing:
   Cost Structure:
   Other Information:

4. **COMPANY NAME:**
   Market Share & Annual Revenue:
   Target Market Segments:
   Basic Strategy and Tactics:
   Competitive Advantage(s), if any:
   Competitive Disadvantages, if any:
   Reputation:
   Pricing:
   Cost Structure:
   Other Information:

INDUSTRY COMPETITOR ANALYSES (Continued)

Discussion

Industry Competitor Analysis, By Competitor

The purpose of this section is to analyze key competitors. The amount of information that can be collected about a competitor can be quite extensive. This section attempts to highlight some key data only.

Key competitors should include not only traditional industry competitors, but also non-traditional competitors with different skills and resources which often represent the greatest threat over the long-run. For example, include foreign competitors and new competitors from different industries.

As additional information is collected on competitors, it is often appropriate to conduct an in-depth competitor analysis on one or more key competitors. In this case, a separate Competitor Analysis document should be developed and referenced at the beginning of this document in the section "Other Relevant Documents."

In practice, it is best to design at least two different formats for a competitor analysis. One competitor analysis format should be used to analyze a single business; the other format should be used to analyze a company (or a division of a company) which competes in two or more businesses.

The format for a competitor analysis document designed to analyze a single business unit should look very much like Part II of this SBU template document on "Competitive Positioning."

The format for a competitor analysis document designed to analyze a company or division which competes in two or more businesses is presented in the "Competitor Analysis Summary" in Chapter 4 of this book.

In practice, it is a good idea to have a short version of each of the above to use for competitors which are not significant enough to justify the time and effort necessary to complete a full analysis.

Theoretically, a business unit should perform business unit competitor analyses, and the corporate planning department should perform corporate (multipoint) competitor analyses.

For an excellent overview on how to develop a comprehensive competitor intelligence system, refer to Michael Porter's *Competitive Strategy,* 1980, The Free Press.

INDUSTRY ACQUISITIONS IN THE RECENT PAST

Listed below are recent acquisitions that have occurred in this industry including information regarding each acquisition.

* **Acquiring Firm:**
  Acquired Firm:
  Date of Acquisition: / /
  Purchase Price: $
  Details:

* **Acquiring Firm:**
  Acquired Firm:
  Date of Acquisition: / /
  Purchase Price: $
  Details:

* **Acquiring Firm:**
  Acquired Firm:
  Date of Acquisition: / /
  Purchase Price: $
  Details:

* **Acquiring Firm:**
  Acquired Firm:
  Date of Acquisition: / /
  Purchase Price: $
  Details:

* **Acquiring Firm:**
  Acquired Firm:
  Date of Acquisition: / /
  Purchase Price: $
  Details:

INDUSTRY ACQUISITIONS IN THE RECENT PAST

Discussion

The purpose of this section is to highlight recent mergers and acquisitions which have occurred in the industry.

Whenever one company mergers or acquires another, a shift in strategy is likely. This is often due to the new opportunities available to the combined entity with its new level of skills, products and financial resources. It is also due to the fact that corporate structural changes make it more politically acceptable to have an open discussion about strategy.

Theoretically, the merger or acquisition itself should be part of a well thought out long-term strategic plan, but this is not always the case (which is one reason why so many acquisitions do not increase shareholder value for the acquiring company).

It is important to monitor the types of acquisitions that have taken place, and to analyze what motivated them.

Some acquisitions are driven by economies of scale. For example, in the U.S. office superstore industry (which began around 1987) the goal has been to acquire as many stores as possible as fast as possible to take advantage of economies of scale in purchasing.

In U.S. commercial banking, some of the largest acquisitions in the early 1990's were driven by the need to lower unit costs through better capacity utilization. For over twenty years banks have poured millions of dollars into information technology solutions in order to electronically process as many transactions as possible. The result has left almost all large money center banks with powerful computer systems able to handle far more transactions than in the person-to-person, paper-transaction world. In general, Bank 'A' can now handle all of the systems processing for it *and* Bank 'B' with little added costs. This driving force will ensure that bank consolidations continue in the U.S.

Another type of bank acquisition that has occurred more recently is motivated by the desire to broaden the product line into mutual funds. This is a very different type of strategic move, with very different implications.

Many telephone companies are more than simple communication companies. Besides expanding abroad, they are merging with cable companies; broadening into computer services and computer software; offering financial services, and much more.

Each merger and acquisition needs to be understood in terms of its general impact on industry structure, as well as its specific impact on each competitor.

In the post cold-war global environment, with technological changes of all types occurring with lightening speed, it is truly an exciting time to be a strategic planner. Pass the aspirin, please.

COMPETITOR INTELLIGENCE DATA GATHERED VIA INDEPENDENT SOURCES

The information below represents the highlights of data gathered from independent sources (i.e., from people not working directly within the << Insert SBU Name >> business). The data reflect information about our competitors and about ourselves.

COMPETITOR NAME; SOURCE & DATE	COMPETITOR INTELLIGENCE INFORMATION
Competitor Name:	
Information Source:	
Date of Information: / /	
Competitor Name:	
Information Source:	
Date of Information: / /	
Competitor Name:	
Information Source:	
Date of Information: / /	
Competitor Name:	
Information Source:	
Date of Information: / /	

INDUSTRY COMPETITOR INTELLIGENCE VIA INDEPENDENT SOURCES

Discussion

The purpose of this section is to provide objective industry information compiled by sources outside the business unit.

Very often, business managers have a biased opinion about their image in the market place and the quality of their products. (Rarely will business mangers admit to holding a biased view or appreciate that the information they deal with is often biased.)

This section, to put it bluntly, helps keep business managers more objective and realistic about their business. Also, it helps drive home the obvious point that it's what the customer thinks that is important, not what the business manager thinks the customer should know.

Another goal of this section is to facilitate the procedure for the corporate planning department (or corporate competitive intelligence department) to collect data from all corporate businesses. The competitive information can then be used when conducting a competitor analysis of a competitor which competes in more than one business.

The information sources used for this section may include trade magazines, ex-employees of competitors, funded studies by a consulting firm or university, trade shows, annual reports, ads and stories in newspapers and magazines, agencies and recruiters on retainer, industry survey groups, focus groups, sales force contact with customers, industry analysts, etc. The type of data collected may include information on competitor strengths, weaknesses, strategies, costs, culture, product plans, organizational charts, biographical data on employees, market share data, financial data, suppliers, allocation of resources, relationship with parent company, and more.

In practice, general management is strongly interested in this section. It not only represents what the outside world thinks, which is important for its own sake, but it represents another avenue of information to judge the performance of the business unit.

PART II

COMPETITIVE POSITIONING

BUSINESS MISSION STATEMENT AND SUPPORTING INFORMATION

<< Insert SBU Name >> **business mission** is to

Business Objectives

Our major business objectives, *ranked in priority order,* and listed with specific targets where feasible, include:

1.

2.

3.

4.

5.

Vulnerabilities

Our business objectives are vulnerable to some of the following situations:

1.

2.

Internal Organizational Trends

Expected trends within << Insert Company Name >> that will affect the << Insert SBU Name >> business include:

1.

2.

PART II - COMPETITIVE POSITIONING

Discussion

Part II presents the competitive positioning of the business unit within the context of the industry structure previously presented. Like Part I, the format should be customized to meet the needs of your business.

BUSINESS MISSION STATEMENT AND SUPPORTING INFORMATION

The purpose of this section is to specify the mission of the business and to present supporting information. The business mission defines the general direction and purpose of the business. A business mission should be a little more specific than *providing the best of everything for everyone in the world.*

Business Objectives

Sample business objectives might include:

Increase market share from 14% to 17% within two years;
Maximize annual profitability surpassing at least $50 million this year;
Add $40 million of business to corporate Business 'A' and $22 million to Business 'B' this year;
Attain stock price of 45 by the end of this year;
Improve ROI to 14% this year; 15% next year and thereafter;
Provide a decent living for employees (e.g., no layoffs; and salary raises at least equal to inflation);
Maximize shareholder value attaining a value of at least $1 billion by the end of 1997.

The more specific each business objective is the better; and they should be listed in priority order. The business objectives should be viewed as the framework for a report card to be graded in the future to measure the success of the business. They should state what the business is trying to do. The objectives should be well understood by corporate management, and clearly communicated to the business owners and the employees.

Business objectives should be chosen from the full domain of possible economic and non-economic contributions the business unit intends to make to its full complement of stakeholders. In many firms where different goals are not discussed *and* not put in priority order, the objectives are little more than a wish list.

The following situation illustrates the problem when objectives are not specified in priority order.

SBU Manager X was given two goals: maximize annual profitability *and* maximize shareholder value. In December, an employee had an idea for a product that would have cost $1 million to develop and to market. It could have been developed in 60 days and sold immediately for $3 million. Based on maximizing annual profitability (and that year's bonus) the project was rejected. If priorities had been established and maximizing shareholder value had been identified as a higher priority, then the project would have been approved.

Vulnerabilities

Vulnerabilities represent a listing of those factors that might make it difficult to achieve established business objectives. Vulnerabilities serve as an input required to judge the probability of attaining the business goals, and to measure the risk/reward trade-off. In practice the list of vulnerabilities also provides political cover.

Internal Organizational Trends

This paragraph identifies expected trends within the business unit and corporate environment that might affect the business. Examples include: organizational restructuring; data center changes; product bundling or unbundling with other businesses; office relocation; corporate layoffs; and changes in the corporate culture.

<< INSERT SBU NAME >> COMPETITIVE STRATEGY SUMMARY

Given the industry structure analysis presented earlier, along with a clear understanding of our mission, objectives, and current position, our chosen generic competitive strategy for << Insert SBU Name >> is one of: << choose one: COST LEADERSHIP; COST FOCUS; DIFFERENTIATION; DIFFERENTIATION FOCUS >>.

That is, << Insert SBU Name >> will << choose one: target most; focus on a few >> industry segments and achieve superior returns primarily from << choose one: a cost advantage; being able to uniquely satisfy customer needs >>. And more specifically, the three competitive factors by which << Insert SBU Name >> will achieve its long-term, sustainable competitive advantages, *in priority order,* are:

Competitive Advantages

#1

#2

#3

Summary of Basic Strategy for Success

A summary of our basic strategy for success is to....

The reason for selecting this strategy is because....

COMPETITIVE STRATEGY SUMMARY

Discussion

Within the context of the industry analysis completed in Part I, the purpose of this section is to make clear, without ambiguity, the competitive strategy of the business. First, within the context of the industry segmentation matrix presented earlier, in which segments will the business compete? Second, what is the competitive advantage the business has, or plans to achieve, in order to attain superior returns?

Listing the competitive advantages the company has or plans to achieve *in priority order* forces the business to make decisions and select between alternative strategies. This helps avoid the we're-the-best-in-everything strategy which isn't too different from the very common we're-not-the-best-in-anything strategy.

Competitive advantage refers to something the business can do more cheaply than competitors (i.e., a cost advantage) or something it can offer that is unique and will provide premium pricing and higher margins.

Examples of factors which can be used for differentiation or differentiation focus strategies include: sales force knowledge; heavy advertising; product appearance; superior product design; product conformance; most convenient location; product reliability; linkages to other products; superior functionality; broad product features; superior client service; superior client training; product durability; brand reputation; superior dealer network; customer financing; compatibility; one-stop shopping advantages; and broad geographical scope.

Examples of factors which might support cost leadership and cost focus strategies include: low cost design; superior automated assembly; global scale over which to amortize research and development; low overhead; plentiful source of low cost labor; superior training; cheapest telecommunications; lowest cost delivery system; and fewer features and fewer services tailored to buyers with fewer needs.

In practice, this part of strategy development is the most difficult to reach consensus. This is because choosing the competitive strategy and the route to competitive advantage is the heart of the entire plan and has the biggest impact on resource allocation.

The strategy chosen should be well communicated. It should not be a secrete. Resource allocation and other decisions should be based on the strategy. Advertising and other communications should reinforce the chosen strategy. Although there are certain conditions in which it is not appropriate to tell everything to everyone, the more common situation is that too few people, internally and externally, understand the business strategy.

If you're the president or manager of the business or the person responsible for the strategic plan, then choosing the strategy and the route to competitive advantage should feel exhilarating. If, on the other hand, you're *not* in a position to re-allocate resources or implement bold and creative strategies, then choosing the business strategy should feel intellectually satisfying; pass the popcorn please.

SUMMARY OF BASIC STRATEGY FOR SUCCESS

After making the key decision regarding the firm's competitive strategy that will direct its route to competitive advantage that will determine its performance, this section provides an opportunity to state the reason for selecting this strategy. Or, as they say in the post employee-empowerment era, *defend thyself you swine!*

In practice, besides explaining the basic strategy chosen, it is often useful to explain why other strategies were not chosen. Ideally, this should be done objectively and constructively, rather than stacking the deck as if the strategy chosen was the only viable option.

<< INSERT SBU NAME >> SALES & MARKETING STRATEGY

In support of our competitive strategy, highlights of our sales and marketing strategy are presented below.

* Our future sales resources will include....
* The primary message we will convey to our targeted customers is that....
* The primary message we will convey to our targeted distribution channels is that....
* Major highlights of our marketing and advertising plan will include....
* Our pricing strategy will be to....

Key Revenue Opportunities by Product Segment

Our key **product varieties**, *ranked in priority order,* include:

1.
2.
3.
4.

Key Revenue Opportunities by Broad Marketing Classifications

The types of **customers** (end-users) that we will target, *ranked in priority order,* include:

1.
2.
3.
4.

The **distribution channels** that we will target, *ranked in priority order,* include:

1.
2.
3.

Our key **geographic** target areas, *ranked in priority order,* are:

1.
2.
3.

Key Revenue Opportunities by Specific Industry Segment

From the industry segmentation matrix presented earlier in the industry analysis section of this document, our targeted **industry segments,** *ranked in priority order,* are discussed below:

1. Industry Segment:
   Our sales and marketing strategy for this industry segment includes....

2. Industry Segment:
   Our sales and marketing strategy for this industry segment includes....

3. Industry Segment:
   Our sales and marketing strategy for this industry segment includes....

SALES & MARKETING STRATEGY

Discussion

Good marketing managers know that they can't sell everything to everyone. The key to a successful marketing strategy is to market the most profitable products to customers most likely to purchase them.

The purpose of this section is to align the marketing and sales plans with the previously defined competitive strategy. Targeted buyer types and product varieties should be ranked in priority order, using categories consistent with those previously identified in the *Industry Segmentation Matrix* presented in "Part I, Industry Analysis."

Key revenue opportunities need to be identified in priority order by industry segment with a discussion of how to win the business in that segment. Done correctly, the strategic plan should drive the marketing plan which should drive the sales plan. A diagram in the shape of a triangle is often used to show strategic planning on top of market planning which is on top of sales planning. Most people in most corporations would agree with the obvious logic of this statement.

In practice, however, many marketing and sales managers have higher corporate titles and more clout than the strategic planner, or at least they have enough freedom to come up with their *own* plans. The sound idea that the firm's competitive strategy is the driving force of the entire firm and links all other plans, is sometimes lost. If the internal politics will not support the idea that the strategic plan and the marketing plan should complement each other, then eliminate the strategic plan to save money.

Assuming, however, that the marketing and sales plans are consistent with the overall competitive strategy for the business, there are still many tactical plans that need to be considered. This, being a strategic plan with links to all functions of the business, should highlight only key components of the marketing plan.

For example, who will sell what, and how and when will it be sold? What percentage of time should be allocated to selling to new customers versus repeat sales to current customers? Should the sales strategy be driven by maximizing the total number of customers or the total number of units sold? Should the sales bonus program be based on annual revenue or annual profitability? Different sales goals require different selling strategies and different compensation strategies. Advertising, sales and pricing discounts should also be timed with an understanding of the monthly demand cycle of the business. Other activities, like sales training and vacations should often be scheduled when business is slow.

It is important to recognize the big difference between a strategic plan and a marketing plan (which sometimes are viewed as the same because many strategic plans are incomplete.) A strategic plan, as indicated by the holistic framework of this template, brings together all activities (plans) throughout the firm in concert with the overall strategy. The strategic plan should precede all other plans. The marketing plan, which is vital, represents a special activity within the organization. It is like the information systems plan, the human resource plan, the customer service plan, and the plans of other departments in that each plan details how that functional area will perform its specialized activities within the context of the overall strategy of the business.

What is presented on the opposite page is only an outline of a high-level sales and marketing plan. There is no attempt to be more than that. A good marketing plan requires far more details than are presented here. For example, a marketing plan would contain a lot more information regarding sales personnel allocation, sales strategies, sales incentive plans, detailed customer profiles, planned sales campaigns, general advertising and direct marketing plans, market brochure information, customer pricing strategies, and detailed communication strategies.

<< INSERT SBU NAME >> PRODUCTS AND SERVICES

Product (and Services) Listing

Product / Service Name	Current Number of Customers	Pricing Information	1996 Revenue	1996 Expenses	1996 Profit (Loss)	Estimated 1997 Profit (Loss)
1.			$	$	$	$
2.			$	$	$	$
3.			$	$	$	$
4.			$	$	$	$
5.			$	$	$	$
6.			$	$	$	$
7.			$	$	$	$
8.			$	$	$	$
9.			$	$	$	$
10.			$	$	$	$
		TOTALS:	$	$	$	$

Product Line Features and Benefits

The general features and benefits of << Insert SBU Name >>'s products and services are:

*
*
*
*
*

PRODUCTS AND SERVICES

Discussion

Product (and Services) Listing

This section lists each product or service the business offers for sale, along with the number of customers, pricing information, and key profit and loss information.

The total revenue figure from all products listed should equal the total revenue from all operating revenue. Often this may require listing items such as "maintenance," "customer service" or annual fee for a product or service. In practice, if your business has numerous products or services which are not strategically distinct, they can be lumped together to keep the product listing on one page.

If your business does not know the revenue and expense data by product, a surprisingly common problem, leave the entry blank. It is best not to lump strategically distinct products together just because the financial data are not available. Knowing what you don't know is very important information in itself.

An alternative to leaving the product financials blank is to make the best estimate and to write "estimate" in the column headings. The purpose of doing this is that current product profitability data and projected product profitability forecasts are key input for management to decide how to allocate resources by product.

Additional information about each specific product and service can be included on the opposite page. But it is usually better to define each product in more detail in the glossary at the end of the strategy document. Also, if a separate brochure provides detailed product information, that brochure should be referenced in the beginning of the SBU plan under the section "Other Relevant Documents."

Product Line Features and Benefits

The purpose of this section is to list the general features and general benefits of the complete set of products and services provided.

In practice, this page should be used as input to the marketing and advertising department to develop sales and advertising literature and other related materials.

<< INSERT SBU NAME >> PRODUCT PLANS AND MAJOR PROGRAMS

Listed below are the product plans and major programs that are currently being implemented, or will soon be implemented, in order to support the business strategy.

* **Product Plan or Major Program:**
  Benefit(s) Expected:
  Tactical Plan:
  Time Frame:
  Person Responsible:
  Discussion:

* **Product Plan or Major Program:**
  Benefit(s) Expected:
  Tactical Plan:
  Time Frame:
  Person Responsible:
  Discussion:

* **Product Plan or Major Program:**
  Benefit(s) Expected:
  Tactical Plan:
  Time Frame:
  Person Responsible:
  Discussion:

* **Product Plan or Major Program:**
  Benefit(s) Expected:
  Tactical Plan:
  Time Frame:
  Person Responsible:
  Discussion:

* **Product Plan or Major Program:**
  Benefit(s) Expected:
  Tactical Plan:
  Time Frame:
  Person Responsible:
  Discussion:

PRODUCT PLANS AND MAJOR PROGRAMS

Discussion

The purpose of this section is to list all of the product plans and major programs which the business intends to perform in order to meet its objectives.

The key to this section is to ensure that the business strategies identified earlier are directly supported by the product plans and programs listed.

If, for example, the business strategy is to provide superior customer service via the *best customer service representatives,* then, in the long-run, the company should devote relatively more time, effort and money hiring and training customer service representatives than the competition.

Also, many firms, even after they develop great plans which are tied to well thought out strategies, still fail to implement the plans because people were not assigned personal responsibility with deadlines.

Product plans and expenditures need to be tied to the budget and to the profit and loss statement projections.

General Examples

* **Product Plan or Major Program: Introduce Product X**
  Benefit(s) Expected: $20 million profit in year one; 25% increase per year for next five years.
  Tactical Plan: Keep product secret until massive ad campaign begins.
  Time Frame: by 3/1/97
  Person Responsible: R. Brown
  Discussion: Market test was a complete success. All relevant departments continue to meet monthly to coordinate successful product roll-out.

* **Product Plan or Major Program: Reduce Employee Health-Care Insurance Overpayments**
  Benefit(s) Expected: Save 5% on health care costs per year.
  Tactical Plan: We have signed a contract with Oxxford Group to use their proprietary system to screen past and future health care bills for accidental and fraudulent overcharges by hospitals and other health-care providers.
  Time Frame: Implement audit system by 10/1/97
  Person Responsible: B. Franklin
  Discussion: Oxxford Group has been so successful that they charge no fee; they are compensated with a percentage of recovered funds. Oxxford Group is located at 230 Park Avenue in New York City.

Industry Specific Example for Retail Bank XYZ

* **Product Plan or Major Program: Re-deploy Excess Personnel and Underutilized Assets**
  Benefit(s) Expected: Reduce retail banking expenses by $10 million; use funds for bold new venture.
  Tactical Plan: Close 50 of the least profitable retail branches; open 50 new business centers.
  Time Frame: by 12/31/97
  Person Responsible: A. Smith
  Discussion: As a greater percentage of retail banking transactions are processed electronically, fewer retail branches are needed. They will be converted to business opportunity centers to meet the needs of small businesses requiring accounting, legal, and bank operating services.

<< INSERT SBU NAME >> LINKAGES WITH OTHER << Insert Company Name >> SBUs

Listed below are other << Insert Corporate Name >> businesses which are linked to << Insert SBU Name >> along with a description of how the businesses are linked and how they complement each other. Also, where applicable, the following four types of data are given:

(1) This year's expected (customer) revenue contribution to/from the linked business. (This information answers the question, "How much revenue would Business A not receive if Business B were not in operation?")
(2) This year's expected profit contribution to/from the linked business. (This information answers the question, "How much profit would Business A not receive if Business B were not in operation?")
(3) The interoffice charges between the two businesses.
(4) The present value contribution provided to/from the linked business. (This information answers the question, "How much does Business A benefit Business B in terms of shareholder value or discounted cash flow?")

<< Insert Corporate Name >> BUSINESSES LINKED TO << Insert SBU Name >>	TO LINKED BUSINESS	FROM LINKED BUSINESS	NET PV IMPACT WITH LINKED SBU
Linked Business: **<< Insert Linked Business Unit Name >>**			
This Year's Expected (Customer) Revenue Contribution	$	$	
This Year's Expected Profit Contribution	$	$	
This Year's Expected Interoffice Charge	$	$	
Present Value Contribution	$	$	$
Description of Linkages:			
Linked Business: **<< Insert Linked Business Unit Name >>**			
This Year's Expected (Customer) Revenue Contribution	$	$	
This Year's Expected Profit Contribution	$	$	
This Year's Expected Interoffice Charge	$	$	
Present Value Contribution	$	$	$
Description of Linkages:			
Linked Business: **<< Insert Linked Business Unit Name >>**			
This Year's Expected (Customer) Revenue Contribution	$	$	
This Year's Expected Profit Contribution	$	$	
This Year's Expected Interoffice Charge	$	$	
Present Value Contribution	$	$	$
Description of Linkages:			
TOTAL Net PV Contribution to Other << Insert Corporate Name >> SBUs			$

LINKAGES WITH OTHER CORPORATE BUSINESSES

Discussion

This section is designed specifically for businesses operating within a corporate structure of two or more business units. *If this business unit analysis is for a stand-alone business, this section should be deleted.*

For business units operating within a corporate family this section is critical. The basic design of this section allows the business unit to measure the additional value it provides to the corporation by helping other business units in the corporate family.

Corporate business units which are very profitable will find many other business units ready to claim partial credit for the success.

In practice, many business units that are not very profitable will claim that their true importance lies with the benefit they bring the rest of the corporation. These business units often overstate their importance to the corporation by over estimating their added value. Centralized cost centers and executives with 'special projects' will also attempt to burden successful business units with extra expenses because that's where the money is.

This section allows the business unit to clearly and specifically itemize the benefits it brings to the rest of the corporation. A principal objective of corporate strategy is to promote synergies between business units to maximize the value of the whole corporation. This objective should be actively pursued, promoted and rewarded. However, to state the obvious, a business unit should not overstate its contribution to other business units for political purposes.

In practice, a very interesting reality check takes place when a business unit is asked to *write down* the specific benefits it offers other corporate businesses. Requiring specifics and openly sharing the estimates with the benefiting SBU managers helps to promote accurateness.

The *structured* process shown on the opposite page facilitates the measurement of the real contribution made. It offers the business unit the opportunity to take credit for what it actually and specifically contributes to other business units, by business. The linkage between the SBU developing the strategy and *each* linked SBU is discussed along the following four dimensions:

(1) This year's expected customer revenue contribution to/from the linked business. (This information answers the question, "How much revenue would Business A not receive if Business B were not in operation?")
(2) This year's expected profit contribution to/from the linked business. (This information answers the question, "How much profit would Business A not receive if Business B were not in operation?")
(3) The interoffice charges between the two businesses, and/or cost savings from sharing an activity.
(4) The present value contribution provided to/from the linked business. (This information answers the question, "How much does Business A benefit Business B in terms of shareholder value or discounted cash flow?")

In practice, this exercise is best done when business managers communicate with one another.

Using a structured methodology such as this also exposes situations where multiple SBUs take credit for the same revenue.

<< INSERT SBU NAME >> OPPORTUNITY IDENTIFICATION

Listed below are potential opportunities which will be analyzed to better understand their impact on our competitive position:

*
*
*
*
*
*
*
*
*
*
* We might add new suppliers including....
* We might eliminate suppliers including....
* We might add new channels including.....
* We might change the way we perform certain activities including....
* In order to improve industry structure for all competitors, we might consider....
* In order to significantly reduce costs and to raise the consistency of results we will outsource the following activities....
* Recognizing that many activities are linked and that performance of one activity can significantly affect another, we plan to....
* In order to raise customer satisfaction, raise buyer switching costs, and lock-in customers for future sales, we will electronically link....
* Because of << Insert Technological Change >> we have the opportunity to....
* Because of << Insert Political Change >> we have the opportunity to....
* Because of << Insert Demographic Change >> we have the opportunity to....

OPPORTUNITY IDENTIFICATION

Discussion

This section provides the business manager and others an opportunity to openly discuss possible actions that could improve the business. This section is very different from the section on product plans and major programs. Theoretically, each product plan and major program has been approved and someone has been assigned to complete the task by a given date. Opportunity identification, on the other hand, attempts to free the mind to formulate creative ideas without having to understand, explain or defend every project detail on day one.

To generate ideas, some business managers systematically review the profit and loss statement. The goal of this method is to increase every revenue item and to decrease every expense item. The question associated with each line item is simply, "How?" The most rewarding use of limited time is to analyze the largest potential revenue opportunities and the biggest potential expense reductions.

From a very different perspective, it is advantageous to systematically review every activity the firm performs for possible cost savings and/or improvements in how the activity is performed.

A third source frequently used to explore potential opportunities is the industry segmentation matrix. It can easily be analyzed for ideas about which new segments to serve, and which segments to stop serving.

Using these systematic approaches as well as specifically requesting creative ideas will generate a lot of discussion about potential opportunities. In practice, this section is the one most updated during a business strategy review session with a multi-functional team that represents the different functional areas of the firm.

To facilitate the listing of opportunities, the template on the opposite page includes the beginning of common opportunities facing most businesses. They should be completed or deleted based on the real opportunities facing your business.

If your business is part of a company with two or more businesses, opportunities should also include interrelationships with other corporate businesses. The goal of these opportunities may be to lower costs or to jointly increase differentiation.

A final suggestion regarding opportunity identification is that almost all ideas given in earnest should be written down and not immediately discarded. Great ideas are not always obvious to the majority. If someone had a business idea in 1990 that was predicated on the end of the cold war, it would likely have been dismissed as an *unrealistic* idea.

<< INSERT SBU NAME >> TACTICAL BUSINESS PLANS & WHAT-IF ANALYSIS

The tactical business plans listed below are discussed in terms of major highlights associated with each scenario.

Potential Target Acquisitions (if any)

The ....

Joint Venture Opportunities (if any)

Partners....

Outsourcing Opportunities (if any)

The....

Sale of Business Opportunity (if feasible)

The....

<< INSERT SBU NAME >> BUSINESS WHAT-IF ANALYSIS

Internal and external events which may occur, along with the most likely response by << Insert SBU Name >> are listed below:

EVENT:
LIKELY RESPONSE:

EVENT:
LIKELY RESPONSE:

EVENT:
LIKELY RESPONSE:

EVENT: Major competitor buys another competitor and doubles market share.
LIKELY RESPONSE:

EVENT: Major competitor doubles advertising expenditures.
LIKELY RESPONSE:

EVENT: Major competitor lowers prices 25%.
LIKELY RESPONSE:

EVENT: Major competitor raises prices 25%.
LIKELY RESPONSE:

TACTICAL BUSINESS PLANS & WHAT-IF ANALYSIS

Discussion

TACTICAL BUSINESS SCENARIOS

The purpose of this section is to discuss important tactical decisions that most businesses face at some time.

The following major tactical plans should be considered within the context of the overall business strategy. They include:

(1) Acquiring or merging with another company;
(2) Joint venturing with another company;
(3) Outsourcing one or more activities;
(4) Selling the business. At a minimum, management should have a general idea of what the business could be sold for today. Even a perfectly well-run business should sometimes be sold. For example, a well run cable company can be worth more when linked with a telephone company.

WHAT-IF ANALYSIS

The purpose of this section is to provide an open ended opportunity to ask "what-if" questions on any aspect of the business, the industry or anything else that is relevant. This section also facilitates the planning of quick responses to potential situations where speed and reaction time are critical, whether it's for damage control or the ability to exploit a favorable opportunity.

The what-if analysis should be more comprehensive than just exploring what if something happens directly within the business unit. Asking what-if questions pertaining to potential actions of competitors usually provokes the most interesting discussion. For example, many business managers when asked, "Why don't you raise prices 15%?" would say, "Impossible, we would lose market share." When asked, "What if Competitor X raised prices 15%?" they would quickly respond, "We would match the increase immediately." A more constructive discussion on price leadership, signaling and pricing options would follow.

Another example of how what-if analysis can provide thoughtful discussion is in the area of information technology (I/T). Business managers are often frustrated that the information systems budget does not seem to support the needs of the business. Many I/T managers are frustrated that their budgets are not large enough to cover basic research (which is often done in secret using funds from other projects). Battle lines are drawn. The information systems budget will only be large enough for maintenance and emergency projects. Using what-if analysis helps to break the log jam. The question to ask is, "What-if Competitor XYZ employs a new type of system that significantly lowers its costs and/or provides a unique service?" The mood changes dramatically. The discussion becomes more thoughtful and decisions regarding research and development of new systems are more likely to be based on the strategy of the business and the facts behind each proposal.

What-if analysis is a simple way to deal with uncertainty. Anyone reviewing the business should be free to add to the list of what-if questions. What-if analysis greatly improves the business unit's planned response and reaction time to a variety of possible events.

<< INSERT SBU NAME >> CRITICAL SUCCESS FACTORS

The Critical Success Factors (CSFs) for this business, *ranked in priority order,* are highlighted below:

Critical Success Factor		Source of CSF	Primary Measures & Targets
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
9.			
10.			

KEY for sources of critical success factors:

INDUSTRY = Industry CSF resulting from specific industry characteristics.
STRATEGY = Strategy CSF resulting from << Insert Line of Business >>'s chosen competitive strategy.
ENVIRONMENT = Environmental CSF resulting from economic or technological changes.
TEMPORAL = Temporal CSF resulting from internal organizational needs and changes.

CRITICAL SUCCESS FACTORS

Discussion

This section is about critical success factors. Critical success factors (CSFs) are those things which must go right for the organization to achieve its mission.

The advantages of identifying CSFs are that they are simple to understand; they help focus attention on major concerns; they are easy to communicate to coworkers; they are easy to monitor; and they can be used in concert with strategic planning methodologies. Using critical success factors as an isolated event does not represent critical strategic thinking. But when used in conjunction with a planning process, identifying CSFs is extremely important because it keeps people focused. Clarifying the priority order of CSFs, measuring results, and rewarding superior performance will improve the odds for long-term success as well.

The concept of "success factors" was developed by D. Ronald Daniel of McKinsey and Company, "Management Information Crisis," *Harvard Business Review*, Sept.-Oct., 1961. The process was refined by Jack F. Rockart in, "A Primer on Critical Success Factors" published in, *The Rise of Managerial Computing: The Best of the Center for Information Systems Research*, edited with Christine V. Bullen, Homewood, IL: Dow Jones-Irwin, 1986.

There are four basic types of CSFs according to Rockart. They are:

1. Industry CSFs resulting from specific industry characteristics;
2. Strategy CSFs resulting from the chosen competitive strategy of the business;
3. Environmental CSFs resulting from economic or technological changes; and
4. Temporal CSFs resulting from internal organizational needs and changes.

Things that are measured get done more often than things that are not measured. Each CSF should be measurable and associated with a target goal. You don't need exact measures to manage. Primary measures that should be listed include critical success levels (such as number of transactions per month) or, in cases where specific measurements are more difficult, general goals should be specified (such as moving up in an industry customer service survey).

Example of Critical Success factors for Company XYZ:

CRITICAL SUCCESS FACTOR	Source of CSF	Primary Measure & Target
1. Increase number of customers	Industry	90% customer retention rate; 15% increase in new customers per year.
2. Install PC-based customer service hot line	Strategy	90% of customer queries answered in 1 hr.
3. Increase # of customer service reps	Strategy	3 or more reps per 100 customers.
4. Restructure capital structure	Environmental	Lower cost of capital by 2%.
5. Raise employee morale and productivity	Temporal	Increase employee retention rate to 95% / yr.

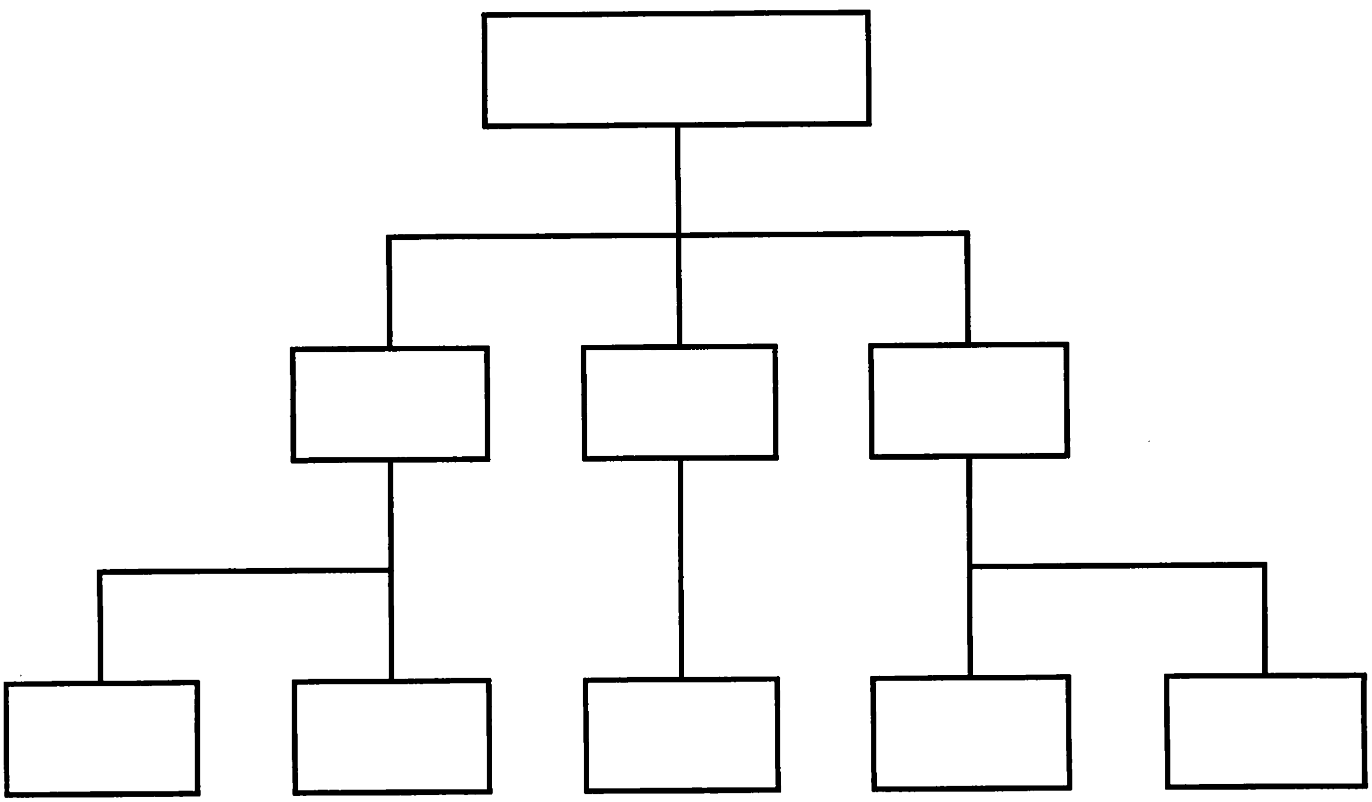
When setting standards, raising standards often raises results (and the reverse is also true).

<< INSERT SBU NAME >> ORGANIZATIONAL ISSUES

The organizational issues of << Insert SBU Name >> will be discussed in terms of the following:

* Organization Chart
* Staffing Issues and Plans
* Training Issues and Plans
* Formal Organizational Structure
* Informal Organizational Structure
* Individuals.

The << Insert SBU Name >> organization chart is presented below.



ORGANIZATIONAL ISSUES

Discussion

The purpose of this section is to highlight organizational issues. The overall goal is to align the firm's human resources with the goals and strategies of the business.

The organizational issues of the business should be discussed in terms of: the organizational reporting structure; staffing issues and plans; the skills of the employees; training issues and plans; the formal organizational structure of rules and procedures; and the informal organizational structure of how employees actually interact.

Many chief executives boast that their company's success is due to their well-trained employees, and that a company's investment in a well-trained work force is paramount. Other executives view training as an overhead expense that is easily cut when monthly sales are flat.

Some companies only hire students from 'top schools' and then train them internally, rarely hiring senior managers from outside the firm. Other companies only hire people with experience and expect them to attend industry training classes. Still other companies hire anyone and offer both internal training and opportunities to attend classes at universities and industry forums.

Decisions about hiring and training, career advancement and rotation within the company, and succession planning, are all key human resource strategies. The key concept to keep in mind is that these vital decisions should be made in concert with the competitive strategies of the business.

Organization Chart

The purpose of this section is to present an organization chart - nothing more, nothing less.

In general, organization charts are:

1. Becoming flatter, with fewer layers of management;
2. Changing more frequently as restructuring occurs more frequently;
3. Less precise as multiple lines of reporting are more common;
4. Relatively less important every year;
5. Still reviewed by many with great excitement and other emotions.

Although rarely done, it is also informative to draw a 'logical organization chart' that conceptually shows the SBU manager at the top, with all of the people (activities) required by the SBU reporting into the SBU manager. Even if nobody actually reports directly to the SBU manager, and even if the SBU manager has the lowest title in the organization, only the SBU manager, with a clear understanding of the industry, can define the SBUs competitive strategy. This is because only the SBU manager can holistically review and coordinate all of the interrelated activities of the business and make the necessary trade off decisions to achieve a competitive advantage.

The information provided below highlights organizational issues regarding the << Insert SBU Name >> employees. Our goal is to create an organization best suited to achieving the mission and objectives of the business.

Staffing Issues and Plans

Our staffing plans......

Training Issues and Plans

Our training plans....

Formal Organizational Structure

Our formal organization structure....

* Our annual personnel review cycle....
*
*
*

Informal Organizational Structure

Our informal organizational structure.....

* Our organizational culture can be described as....
*
*

Individuals

The << Insert SBU Name >> staff can be described as ....

* The skills of the << Insert SBU Name >> can be described as....
*
*

ORGANIZATIONAL ISSUES (Continued)

Discussion

Staffing Issues and Plans

The purpose of this paragraph is to highlight staffing issues in terms of current status, goals and plans. This may include: hiring, firing, rotating staff, succession planning and more.

Training Issues and Plans

The purpose of this paragraph is to highlight training issues in terms of current status, goals and plans. This may include: executive management training, general management training, secretarial training, technology training, managing a global staff, leading organizational transformation, learning to work on a team, EEO and other government training, 'sensitivity training,' leveraging differences in the workplace, and countless other training courses.

Formal Organizational Structures

The purpose of this paragraph is to describe the formal organizational structure of the business. This may include reviewing: standards of behavior for employees, vacation schedules, dress codes, daily time schedules, the employee review process, management processes for promoting and firing employees, employee complaint processes, and more.

Informal Organizational Structures

The informal organizational structure refers to how employees actually interact with each other and share information. The design of the employee cafeteria, if one exists, and the design of where different employees work in each building are extremely important. A company gym, day-care facility, or a simple bank of vending machines affect where people congregate and, therefore, affect personal relationships and the information flow throughout the business.

Where people work relative to each other is a strategic choice that should not be overlooked. Especially in companies where departments don't get along well, human resource management should spend at least some time analyzing and planning for productive interaction between employees.

Electronic mail is having a profound affect on the informal organizational structure of many companies. Twenty years ago the common method of internal corporate communications was a formal, well-written letter that was sent to a carefully selected audience. Sending what was viewed as an official letter to someone too high in the organization could quickly lead to loss of one's position. Today, electronic mail is used by many to send a 'broadcast' message to top management and to managers across the globe, effectively bypassing the (traditional) corporate chain of command.

Individuals

The purpose of this paragraph is to describe the individuals of the business. Individuals should be evaluated in terms of skill level, work experience, and motivation for performing the activities and plans of the business. With new technology and new methods constantly evolving, more experience is not always better from the SBU's point of view. For example, the first McDonald's to open in Moscow preferred job applicants without work experience so that the McDonald's work ethic could be taught without first having to unlearn other corporate work habits. In the post cold war information economy, with technology changing so quickly, twenty years of experience is not always an advantage.

<< INSERT SBU NAME >> INFORMATION TECHNOLOGY ISSUES

The information technology issues of the << Insert SBU Name >> business are analyzed via the following:

* << Insert SBU Name >> Current Information Technology Summary
* << Insert SBU Name >> Assessment of Existing Information Systems
* << Insert SBU Name >> MIS Overview and Systems Architecture Issues.

CURRENT INFORMATION TECHNOLOGY SUMMARY

Listed below are the locations where << Insert SBU Name >> employees are located, along with the information technology they use.

Physical Location:				
Number of People:				
Hardware:				
Software:				
Communications:				
Data:				

INFORMATION TECHNOLOGY ISSUES

Discussion

Current Information Technology Summary

The purpose of this section is to identify key physical locations and to profile their information technology inventory in terms of hardware, software, communication facilities, and data used. In practice, it is often convenient to lump similar types of office locations if they use basically the same information technology architecture.

This simple status report is an effective means to help rationalize the proliferation of divergent technologies used throughout the company. The larger the company and the more physical locations, the more important this report becomes.

Example of I/T Summary for Business XYZ:

Physical Location:	**5 Greenwich Plaza Greenwich, CT (Headquarters)**	**123 Colosio Mexico City (Manufacturing)**	**456 Hutchinson St. Dallas, TX (Distribution Center)**	**Typical U.S. Sales Office (There are 14)**
Number of People:	**45**	**250**	**60**	**15 - 25 each**
Hardware:	2 IBM 3090's 35 IBM PS/2's 7 HP LaserJet IV	2 HP 9000's 15 IBM PS/2's 2 HP LaserJet	15 IBM PS/2's 10 IBM PC/AT's	9 Gateway 2000 7 TravelMate 4000 3 HP LaserJet IV
Software:	MS Windows Netware Microsoft Office General Ledger Customer Profitability	UNIX Netware Microsoft Excel DesignCAD	MS Windows Netware Microsoft Excel Logistics Software Inventory Mgmt.	MS Windows Netware Microsoft Office
Communications:	Hayes Modems Cisco Routers Synoptics Hubs	Hayes Modems Cisco Routers Synoptics Hubs	Hayes Modems Cisco Routers Synoptics Hubs	Hayes Modems Cisco Routers Synoptics Hubs
Data:	Customer Files Contract Files Strategic Plans Employee Databases Competitor Files Product Information Financial Statements Vendor Data	Inventory Data Vendor Contracts Delivery Schedules	Inventory Data Customer Orders	Customer Data Prospect Database Proposal Template Form Letters

ASSESSMENT OF EXISTING INFORMATION SYSTEMS

The chart below illustrates the current quality of the information systems currently in use by << Insert SBU Name >>.

	System Name	User Rating (Employee, Customer, etc.)	Technical Rating	Future Priority Rating
1.				
2.				
3.				
4.				
5.				
6.				
7.				

Brief Description of << Insert SBU Name >> Information Systems

1. The.... program is a.... based system, written in.... that is used by.... in order to..... The system, which was written.... years ago, is....

2. The.... program is a.... based system, written in.... that is used by.... in order to..... The system, which was written.... years ago, is....

3. The.... program is a.... based system, written in.... that is used by.... in order to..... The system, which was written.... years ago, is....

4. The.... program is a.... based system, written in.... that is used by.... in order to..... The system, which was written.... years ago, is....

5. The.... program is a.... based system, written in.... that is used by.... in order to..... The system, which was written.... years ago, is....

6. The.... program is a.... based system, written in.... that is used by.... in order to..... The system, which was written.... years ago, is....

7. The.... program is a.... based system, written in.... that is used by.... in order to..... The system, which was written.... years ago, is....

ASSESSMENT OF EXISTING INFORMATION SYSTEMS

Discussion

The purpose of this section is to identify all existing applications used by the business, to evaluate them, and to provide a brief definition of each.

The system descriptions presented here should be very brief. In practice, even a one sentence description of each system is very helpful. Longer descriptions should be presented in the glossary. Complete systems descriptions should be maintained in a separate systems document which should be referenced at the beginning of this SBU strategy document in the section "Other Relevant Documents."

Referring to the table shown on the opposite page, the user rating should indicate the satisfaction level of the users of the system. Users may or may not like the system because of the user interface, the system functionality, the reports, and a host of other reasons.

The technical rating refers to the technical design of the system from the point of view of the information systems professional. The I/S professional may or may not like the system because of the system architecture, the maintainability of the system, the ability to enhance the system, and a host of other reasons.

The future priority rating should indicate whether or not the future of this system is important to the business. The purpose of this information is to clearly communicate with the systems department to help them plan for the overall corporate architecture of the future. Important pieces of information for developing a future systems architecture plan include knowing which systems are vital and which systems are either unimportant or need to be replaced.

IBM Consulting; Nolan, Norton and Company; Gemini Consulting; and Arthur Anderson Company are just some of the leading firms that provide information systems planning services.

Example of Assessment of Existing Information Systems for Business XYZ

	System Name	User Rating	Technical Rating	Future Priority Rating
1.	General Ledger	High	Low	Very High
2.	Customer Prospecting	High	High	High
3.	Customer Service Reporting	Low	Low	Very High
4.	Vendor Contract	High	High	High
5.	Customer Contract	High	High	Moderate

1. The General Ledger program is a mainframe-based system written in COBOL that is used by the accounting department in order to maintain the corporate financial transactions. The system, which was written twenty years ago by our in-house staff, is poorly designed and a nightmare to maintain. However, because the user interface is simple to use and customized to meet the needs of our business, the users are not interested in spending time and money to buy or develop a new system.

2. The Customer Prospecting program is a PC-based system used by the sales force to target new customers. It was developed in the first half of 1996 by an outside vendor who used off-the-shelf software for over 90 percent of the system. The information systems people and the sales force think it's great.

MIS OVERVIEW & SYSTEMS ARCHITECTURE ISSUES

Management Information System Overview

The Management Information System (MIS) used by << Insert SBU Name >> can be described as ....

Systems Architecture Issues

Listed below, *in priority order,* are current architecture projects which the business unit is working on:

1.
2.
3.

Listed below, *in priority order,* are future architecture issues which this business might address (i.e., a wish list):

1.
2.
3.

MIS OVERVIEW & SYSTEMS ARCHITECTURE ISSUES

Discussion

MIS Overview

The purpose of this section is to briefly summarize the status and usefulness of the current management information systems (MIS) used throughout the business to make decisions. Although most MIS systems today are automated, this analysis is equally relevant to those businesses with non-automated MIS systems.

Good decisions require good information, and good information often requires a good management information system. Technology and globalization have raised the level of data and information available to new heights. Data from within the firm and from the industry need to be accessed, manipulated and reported on efficiently and effectively.

Every part of the organization needs and uses information. For example, product managers at some companies are able to monitor sales of their product by store around the country on a daily basis. Some companies even have their sales force monitor sales and prices of competitors too. The value of this and other information collected and analyzed varies by industry, by business, and by function.

Within this context, executive information systems (EIS) are but one type of management information system. EIS systems are designed to provide executive management with the information necessary to best run the business. Typically, EIS systems provide access to external news and information and to core internal financial systems. After reading this book, it should be clear that the major information missing from today's EIS systems is the strategic information discussed in this document.

Systems Architecture Issues

The purpose of this section is to highlight and to discuss current and future systems architecture issues in order to ensure that the business is effectively leveraging information technology.

This section also helps to focus the information systems area on those issues important to the business.

In practice, business managers should spend at least one day each year catching up on advances in information technology and to consider how the activities of the business (the value chain) can be redesigned and improved by employing new advances in information technology.

For a more detailed discussion on building an I/T architecture based on the firm's business vision and business strategies, see Richard L. Nolan and Dennis W. Mulryan, "Undertaking an Architecture Program," *Stage by Stage*, Vol. 7, Number 2 (March-April, 1987).

<< INSERT SBU NAME >> RISK ANALYSIS

The risks of this business are discussed below.

Customer Default Risk

The customer default risk of this business can be described as....

Processing Risk

The processing risk of this business can be described as....

Interest Rate Risk

The interest risk of this business can be described as....

Financial Risk

The financial risk of this business can be described as....

Foreign Currency Risk

The foreign currency risk of this business can be described as....

Country Risk

The country risk of this business can be described as....

Business Interruption Risk (Fire, flood, earthquake, etc.)

The business interruption risk can be described as.....

RISK ANALYSIS

Discussion

The purpose of this section is to highlight the risks of the business.

Presented in the template on the opposite page is an initial list of potential risks, each of which is defined in the glossary at the end of this book. The risks listed are just a small sampling of potentially important risks facing most businesses. Each risk could have a major impact on the profitability of the firm. Additional risk categories should be added, as appropriate, for specific industry risks and the specific risks facing your business.

If one of the risk categories listed is of little or no significance to the business, it is still informative to state that there is little risk due to that factor, and to briefly state why.

For new companies trying to raise capital, this section on risk is often the most important.

In practice, an ever more important position within the company is the risk manager. The risk manager is responsible for risk and insurance strategies. The risk manager, like all other functional mangers, should make insurance purchases and other risk-related decisions within the overall context of the business strategies and objectives.

The following list is a partial list of the types of insurance and the types of risks that a risk manger needs to analyze, and, if necessary, to insure. From workers' compensation costs that have driven many companies from one state to another, to earthquakes and floods which have closed businesses down over night, these risks are a necessary part of the business plan.

Commercial Automobile Risk	Product Liability Risk	Credit Risk
General Liability	Truck & Fleet Insurance	Computer Risk
Finite Risk	Timing Risk	Interest Rate Risk
Contingency Risk	Earthquake Risk	Flood and Fire Risk
Ocean Marine Insurance	Business Interruption Risk	Directors & Officers Insurance
Property Insurance	Employee Life Insurance	EEO Insurance
Workers' Compensation	Employee Health Insurance	ADA Insurance
Health Care Management	Fraud Risk	Errors and Omissions
Operating Risk	Foreign Exchange Risk	Boiler and Machinery Insurance
Country Risk	Business Risk	Financial Risk
Fraud Risk	Settlement Risk	Environmental Risk
Professional Liability	Fidelity and Surety	Sexual Harassment Risk

For new businesses and growing businesses in search of equity financing, additional 'risk factors' which are frequently referred to in a prospectus for potential investors include: lack of capital adequacy risk; loss of key personnel risk; unfavorable government regulation risk; risk of technological obsolescence; competitor risk; processing risk; uncertainty of market acceptance; and more.

<< INSERT SBU NAME >> AUDIT CONTROLS & BUSINESS RECOVERY PLANS

An overview of our control issues and business recovery plans are presented below.

Audit Control Issues

Our overall self-assessment of the current audit controls in place and used by << Insert SBU Name >> is that they are << choose one: Excellent; Good; Fair; Poor; Very Poor >>.

Listed below, in priority order, are the audit and control issues facing this business, and our action plans to ensure adequate safety.

1. Audit / Control Issue:
   Person Responsible:
   Action Plan:

2. Audit / Control Issue:
   Person Responsible:
   Action Plan:

3. Audit / Control Issue:
   Person Responsible:
   Action Plan:

4. Audit / Control Issue:
   Person Responsible:
   Action Plan:

Business Recovery Plan Highlights

Our overall self-assessment of the current business recovery plans in place and used by << Insert SBU Name >> is that they are << choose one: Excellent; Good; Fair; Poor; Very Poor >>.

Highlights of our Business Recovery Plan include:

1. Business Recovery Issue:
   Person Responsible:
   Action Plan:

2. Business Recovery Issue:
   Person Responsible:
   Action Plan:

3. Business Recovery Issue:
   Person Responsible:
   Action Plan:

4. Business Recovery Issue:
   Person Responsible:
   Action Plan:

AUDIT CONTROLS & BUSINESS RECOVERY PLANS

Discussion

For most people in most companies these two issues are too boring for words.

It's only when something goes wrong because of inadequate controls that these issues take center stage. By that time it's too late.

The best way to deal with both audit controls and business recovery plans is to pretend that you're the president and owner of the company and your entire worth is represented by the business. Immediately, the risk of someone stealing funds or property becomes more important. The lack of adequate controls could also result in financial ruin through honest mistakes as well. In all cases, it is wise to implement proper controls and to have business recovery plans ready for implementation in the event of a disaster or interruption.

Audit Controls

The purpose of this section is to discuss audit controls. Audit controls represent a set of procedures, policies and record keeping activities that are established to ensure legal, ethical and proper business practices.

Example:

Audit / Control Issue: **Accounts Payable Integrity**
Person Responsible: Steve Katz
Action Plan: A copy of all vendor contracts will be kept on file in our image-based network. All vendor payments will be checked against contract terms. Periodic background checks will be made on all of our vendors using industry credit bureaus. We will also make random checks to ensure vendor performance is adequate.

Business Recovery Plans

The purpose of this section is to discuss the business recovery plans required to ensure normal operations following a business interruption. In some businesses, the tolerance for business recovery is a few weeks. In other businesses, the recovery must be completed within a few days, hours or seconds to prevent significant losses. As with all other aspects of business strategy development, the trade off decisions (regarding the level of acceptable losses and the costs to reduce those risks) must be made within the context of the business strategies and business objectives.

Example:

Business Recovery Issue: **Building Power Failure and Computer Operations**
Person Responsible: J. Butscher
Action Plan: We will install and test a battery-operated power supply to ensure uninterrupted power until our power generator is able to provide the full power necessary. To prepare for a long outage, we will contract with Company XYZ to provide a full back-up recovery site that we can use for full computer processing within 24 hours using our daily backup of all software and data.

<< INSERT SBU NAME >> FACILITIES ANALYSIS & ENVIRONMENTAL ISSUES

Facilities Analysis

The current state of the facilities used by the << Insert SBU Name >> business can be described ....

The offices are......

Overall our facilities cost structure can be described as......

Compared to our competitors, the quality of our facilities and the costs are.....

In the future, we may relocate to....

Environmental Exposure and Environmental Risks

Our environmental exposure and environmental risks can be described as....

FACILITIES ANALYSIS & ENVIRONMENTAL ISSUES

Discussion

The purpose of this section is to discuss office facilities and environmental issues.

Facilities Analysis

The purpose of this section is to discuss the current state of all office and other building facilities in use, and to identify the future needs of the business regarding facilities.

For many businesses, this section is a good candidate for elimination. For other businesses, it is vital.

In general, however, the importance of location and facilities planning is often underestimated. Competitive strategy and competitive advantage involve more than just narrowly analyzing the product or service provided. A firm's cost structure and ability to differentiate are often greatly affected by the firm's physical facilities. The number and cost of the firm's physical locations, and the distance between locations, are often important strategic factors, as well as the specific locations themselves.

Information sharing is also greatly affected by where employees are located relative to other departments. For example, companies that relocate all of their information systems people in one (low-cost, out-of-the-way) location are most likely to find their business managers behind the information technology learning curve because of the lack of personal interaction between the two groups.

How the firm's facilities are decorated can also represent a major cost; and it too can represent a purchase criteria at those facilities visited by customers.

Both the location and the condition of facilities affect employee morale and worker productivity.

In practice, it can be very informative to talk to one or more of the leading firms which specialize in location services. The amount of information they maintain (on building costs, local labor costs, local labor skills, and government regulations) can be quite enlightening.

Environmental Issues

For most businesses, environmental exposure is usually a non-issue or a major issue, there is no in between. If environmental exposure and environmental liability are issues at your firm, they should be discussed fully because of their *major* implications to future profitability.

Prior to making an acquisition, it is a good idea to make sure that there are no 'unknown' environmental exposure problems facing the target company.

For some companies, it is also becoming important that their customers and suppliers are not facing environmental problems as well. Customer credit risk and supplier bankruptcy risk are only part of the firm's concern. The U.S. 'environmental cleanup' is a tangled legal mess that can affect most any company somehow 'connected' with a primary responsible party [to the environmental exposure].

<< INSERT SBU NAME >> EXISTING CUSTOMER LIST

Shown below is a listing (by revenue) of the top 20 current customers of << Insert SBU Name >>.

Rank	Existing Customer	Annual Revenue	Cumulative Revenue	Cumulative % of Total Revenue
1.		$	$	%
2.		$	$	%
3.		$	$	%
4.		$	$	%
5.		$	$	%
6.		$	$	%
7.		$	$	%
8.		$	$	%
9.		$	$	%
10.		$	$	%
11.		$	$	%
12.		$	$	%
13.		$	$	%
14.		$	$	%
15.		$	$	%
16.		$	$	%
17.		$	$	%
18.		$	$	%
19.		$	$	%
20.		$	$	%
		Revenue for Top 20 Customers:	**$**	**%**
		Revenue for All Other Customers:	**$**	**%**
		TOTAL REVENUE:	**$**	**100%**

EXISTING CUSTOMER LIST

Discussion

The purpose of this section is to list existing customers.

In the example presented on the opposite page, existing customers are listed in descending order by revenue. This helps focus on those customers that are most important. However, if your business has the sophistication to list customers by profitability contribution to the firm, that would be even better.

The number of customers that should be listed is a matter a style. In many cases it makes sense to list all customers because the listing is kept anyway and because the SBU document is the primary source for all vital information. In other cases it makes sense to keep the listing brief in order to focus on the most important relationships. For businesses with thousands of retail customers it would not make sense to list customers by name, but rather, to list them by customer type.

The concept of cumulative total revenue for the top 20 customers is useful to give a picture of how important the largest customers are, and how vulnerable the business is to the loss of any one of them. Again, this concept is more enlightening if based on customer profitability.

For those businesses which do not have a sense of customer profitability (or a sense of marginal and average costs for each product and service provided) then decision making is more difficult.

<< INSERT SBU NAME >> POTENTIAL CUSTOMER LIST

Shown below is a listing of potential customers of << Insert SBU Name >>.

Potential Customer	Percent Likely to Close	Estimated Annual Revenue	Estimated Annual Profit	Comment
	%	$	$	
	%	$	$	
	%	$	$	
	%	$	$	
	%	$	$	
	%	$	$	
	%	$	$	
	%	$	$	
	%	$	$	
	%	$	$	
	%	$	$	
	%	$	$	
	%	$	$	
	%	$	$	
	%	$	$	
	%	$	$	
	%	$	$	
	%	$	$	
	%	$	$	
	%	$	$	

POTENTIAL CUSTOMER LIST

Discussion

The purpose of this section is to list the potential customers of the business.

Too often a list of potential customers is kept within the confines of the sales and marketing department only.

Where possible, potential customers should be ranked in order of priority.

In practice, the list of potential customers leads to a very constructive discussion on how to win the business by a cross-section of business executives.

Besides the useful suggestions that other functional managers will have, any discussion on potential customers helps focus the whole organization on satisfying customer needs.

<< INSERT SBU NAME >> FINANCIAL ANALYSIS And STRATEGIC HEALTH

The financial and strategic health of << Insert SBU Name >> are analyzed via the following:

* << Insert SBU Name >> Income Statement Analysis and Reporting
    * << Insert SBU Name >> Income Statement
    * << Insert SBU Name >> Analysis of P&L Expense Items
    * << Insert SBU Name >> Five-Year P&L Income Statement Forecast
* << Insert SBU Name >> Balance Sheet
* << Insert SBU Name >> Shareholder Value Analysis
* << Insert SBU Name >> Human and Financial Resource Allocation By Activity
* << Insert SBU Name >> Significant Activities and Their Cost Drivers
* << Insert SBU Name >> Supplier Analysis
* << Insert SBU Name >> Strategic Balance Sheet.

<< INSERT SBU NAME >> INCOME STATEMENT ANALYSIS AND REPORTING

The income statement analysis and reporting section includes a current income statement; an analysis of P&L expense items; and a five-year P&L income statement forecast.

Income Statement

Year end 1996

	1996	1995	1994	1993
Revenue From Source 1	$	$	$	$
Revenue From Source 2	$	$	$	$
Revenue From Source 3	$	$	$	$
Revenue From Source 4	$	$	$	$
Revenue From Source 5	$	$	$	$
Total Revenue:	**$**	**$**	**$**	**$**
Expenses From Source 1	$	$	$	$
Expenses From Source 2	$	$	$	$
Expenses From Source 3	$	$	$	$
Expenses From Source 4	$	$	$	$
Expenses From Source 5	$	$	$	$
Total Expenses:	**$**	**$**	**$**	**$**
Pre-Tax Income:	**$**	**$**	**$**	**$**

Notes:

1. Fiscal year begins << Insert date fiscal year begins >>.
2.

FINANCIAL ANALYSIS AND STRATEGIC HEALTH

Discussion

This section presents standard financial statements as well as additional *strategic statements* to more fully analyze the strategic health of the business.

As with other portions of this template document, the business manager should add as many other financial statements (e.g., a cash flow statement) as appropriate to meet the needs of the business.

The importance of sound and accurate financial statements cannot be stressed enough. But to rely only on financial statements alone would be very dangerous. Two companies with identical financial statements as of today could have totally different futures. One company could have high employee morale, satisfied customers, and new products ideally suited to meet the changing needs of customers. The other company could be near bankruptcy because a new competitor is about to introduce a significantly superior product at a rock bottom price.

The standard financial statements and the strategic balance sheet, when viewed together, present a more accurate assessment of the total health of the business.

INCOME STATEMENT ANALYSIS AND REPORTING

Income Statement

This page should include a standard profit and loss income statement with a few years of history.

The line items of the profit and loss statement should reflect industry practices and the needs of the business.

<< Insert SBU Name >> Five Year P&L Forecast

	1996 Actual	1997 Forecast	1998 Forecast	1999 Forecast	2000 Forecast
Revenue From Source 1	$	$	$	$	$
Revenue From Source 2	$	$	$	$	$
Revenue From Source 3	$	$	$	$	$
Revenue From Source 4	$	$	$	$	$
Revenue From Source 5	$	$	$	$	$
Total Revenue:	**$**	**$**	**$**	**$**	**$**
Expenses From Source 1	$	$	$	$	$
Expenses From Source 2	$	$	$	$	$
Expenses From Source 3	$	$	$	$	$
Expenses From Source 4	$	$	$	$	$
Expenses From Source 5	$	$	$	$	$
Total Expenses:	**$**	**$**	**$**	**$**	**$**
Pre-Tax Income:	**$**	**$**	**$**	**$**	**$**

Notes:

1.
2.

To summarize the expected monthly cycle of revenues, expenses, and net cash flow for the << Insert SBU Name >> business....

INCOME STATEMENT ANALYSIS & REPORTING (Continued)

Discussion

Five Year P&L Forecast

This page should include a standard five year profit and loss forecast.

At many companies, financial projections *are* the strategic plans of the business. For example, "The plan is to increase revenues and profit by 15%." In some cases the business managers are coached what the answer should be via corporate hurdle rates.

These 'plans' are often nothing more than the desired financial goals of management. In fact, the same 'plan' is often used for all corporate businesses. Simplicity rules. In general, there is a thin line between picking a number out of the air and the financial plans of the business.

In any case, the CEO is characterized as a demanding leader that will be able to raise dividends next year and make the shareholders happy. The business manager will 'work the numbers' until the desired results are *discovered.* If the business manager doesn't have a clue how the business will attain the stated goals, the plan is described as "very aggressive."

The annual ritual continues until the company doesn't make its goals.

However, when based on a previously developed industry analysis and the firm's competitive strategy, financial projections are fully complementary to that effort and they link the specific strategy with a set of expected financial returns for the business.

To ensure the proper linkage between strategy formulation and financial projections, all financial projections should include a list of assumptions about the industry, about the firm's competitive strategy, and all other assumptions.

For cyclical businesses, additional information should be added regarding the monthly pattern of sales and cash flows and the reasons for the volatility.

As was indicated in the beginning of this book, the SBU template document and the other template documents should be customized to meet the needs of the business. Adding another section to present a monthly, quarterly or annual budget may be appropriate. If a budget is included, it should correspond with the P&L statement.

<< Insert SBU Name >> Analysis of P&L Expense Items

Listed below are the most significant expense items on the profit and loss statement along with a discussion of each.

Analysis of Key Factors of Production (Significant P&L Expenses)

Key Factor of Production: **Salaries and Benefits**
Percent of Total Expenses:
Discussion:

Key Factor of Production: **Office Expenses**
Percent of Total Expenses:
Discussion:

Key Factor of Production: **Equipment Expenses**
Percent of Total Expenses:
Discussion:

Key Factor of Production: **Professional Expenses**
Percent of Total Expenses:
Discussion:

Key Factor of Production: **Marketing Expenses**
Percent of Total Expenses:
Discussion:

Key Factor of Production: **Travel & Entertainment**
Percent of Total Expenses:
Discussion:

Key Factor of Production:
Percent of Total Expenses:
Discussion:

Key Factor of Production:
Percent of Total Expenses:
Discussion:

The variance between our expenses and the expenses of the industry cost leader can be explained by .....

INCOME STATEMENT ANALYSIS & REPORTING (Continued)

Discussion

Analysis of P&L Expense Items

This section analyzes the largest expense items on the profit and loss statement. The listing on the opposite page should be customized for your business and mirror the P&L statement previously presented.

Although not every expense item needs to be listed and analyzed, all large or growing line items should be.

To highlight the biggest expenses, list expense items in descending order by amount.

The discussion of expenses should include, for each expense item, some or all of the following:
- A definition of the expense, if it is not obvious;
- An explanation of why the expense is what it is;
- The change in expense level from previous years and an indication of future direction;
- The variance from budget;
- Steps taken or planned to reduce the expense.

Many cost cutting programs are driven by the corporate financial officer using the P&L statement as (unfortunately) the *single* source of information from which to make decisions. For example, cut salary (staff) by 5% across the board.

In practice, the reason why this not-so-strategic (hack-saw) method works so well is because many labor intensive activities have become automated and few companies have had the will and creativity to enter new businesses using the (newly created) excess staff.

As companies continue to spend millions of dollars investing in new technology, and as the price performance of technology continues to improve, this 'strategy' of cutting the innocent will continue to 'work' because success is usually measured in terms of short-term trends in earnings, rather than measured in terms of relative success vis-à-vis alternative strategies.

<< INSERT SBU NAME >> BALANCE SHEET

	as of 12/31/96
Cash	$
Short-term Investments	$
Accounts Receivable	$
Inventory	$
Equipment, Less Accumulated Depreciation	$
Building	$
Long-term Investments	$
Other Assets	$
Total Assets:	**$**
Short-term Debt	$
Accounts Payable	$
Notes Payable	$
Income Taxes Payable	$
Other Liabilities	$
Common Stock	$
Retained Earning	$
Total Liabilities and Stockholders' Equity:	**$**

BALANCE SHEET

Discussion

This section presents a standard balance sheet.

For most businesses, preparing a balance sheet is straight forward.

For business units within a corporation the task is more complicated. In many cases the business unit may feel like it isn't worth developing a balance sheet because it owns few assets and it doesn't issue stock.

Many more complicating factors could be listed here. But to appreciate the assets utilized by the business unit, the business should prepare a balance sheet as if it were just sold "as is" including the people and the assets under its control.

<< INSERT SBU NAME >> SHAREHOLDER VALUE ANALYSIS[2]- (STAND-ALONE VALUE)

YEAR	Revenue From Source 1 Input	Revenue From Source 2 Input	Other Revenue Input	Total Revenue Computed	Total Expenses Input	Before Tax Cash Flow Computed
1	$	$	$	$	$	$
2	$	$	$	$	$	$
3	$	$	$	$	$	$
4	$	$	$	$	$	$
5	$	$	$	$	$	$
6	$	$	$	$	$	$
7	$	$	$	$	$	$
8	$	$	$	$	$	$
9	$	$	$	$	$	$
10	$	$	$	$	$	$

YEAR	After-Tax Cash Flow Computed	Discount Factor Given	Present Value of Cash Flow Computed	Cumulative PV of Cash Flow Computed	
1	$	.8696	$	$	Residual Value (input):
2	$	.7561	$	$	$
3	$	.6575	$	$	Residual Value After Taxes:
4	$	.5718	$	$	$
5	$	.4972	$	$	PV After-Tax Residual Value:
6	$	.4323	$	$	$ (2)
7	$	.3759	$	$	
8	$	.3269	$	$	
9	$	.2843	$	$	
10	$	.2472	$	$ (1)	

Shareholder Value **Based on: "Strategy XYZ"**	(computed)	$ (1+2)

[2]Notes and assumptions are listed on the following page.

SHAREHOLDER VALUE ANALYSIS

Discussion

Many corporations announce in their annual reports and in their mission statements that their goal is to maximize shareholder value. But not all executives ever calculate shareholder value, let alone compare alternative strategies based on their different impact on shareholder value.

A simplified format for computing shareholder value is presented on the opposite page. The overall concept is that money comes in from one or more sources and money goes out as well. The goal is to identify net cash flows by year. Different industries will use different proxies for cash inflows (such as revenues, sales, or premiums) and for cash outflows (such as expenses). Because of depreciation and other non-cash expense items, the expense total is just a proxy for cash outflow. A pure analysis would trace cash flow into the bank and cash flow out of the bank. But the big picture need is simply to approximate the overall cash flow dynamics of the business.

This shareholder value analysis is suitable for businesses with or without actual shareholders.

In the cash flow analysis presented on the opposite page, shareholder value is computed as the sum of:

1) the 10-year discounted cash flow from operations; and
2) the discounted residual value of the business assuming the business is sold at the end of the 10th year.

If your business has an investment portfolio, this would be a third component to be added to the shareholder value computation (not shown in the template example).

It is critical to note that different competitive strategies imply different financial outcomes, and therefore, *different strategies have different implications for shareholder value.*

A business should forecast its future cash flows based on a specific strategy. The cash flows then need to be discounted to reflect the time value of money because a dollar received a year from now is worth less than a dollar received today.

A few notes regarding using the shareholder value method:

1) The time horizon can be other than ten years - whatever time horizon is appropriate for the industry;
2) The discount rate should be a function of the industry, the projected economic environment, and the timing and probability of the cash inflows and outflows;
3) In a corporation with many businesses, it is helpful to standardize on the time horizon and the discount rate for political reasons, even though a valid theoretical argument can be made for doing otherwise;
4) The higher the discount rate the better. Most business managers are very optimistic and they believe that in three years every problem will be solved and sales will go through the roof. A high discount rate ensures that the forecast for the first few years will be weighted significantly more than the outer years. The valuation will therefore be more reliable. The data for the first few years will be objectively derived because of the business manager's fear of losing face in the organization by not reaching one's own forecast.
5) Some industries require tailoring the column headings. For example, a property and casualty's cash flows might include: direct written premiums; reinsurance premium ceded; direct expense outflow; reinsurance ceded commissions; direct new loss payout; ceded new loses recovered; old accident year cash flows; and investment income from surplus. The key goal is to project future cash flows no matter what their name.

Shareholder Value Notes and Assumptions

Listed below are notes and assumptions which were used in the shareholder value analysis presented on the previous page for the << Insert SBU Name >> business:

Notes

* Shareholder Value = (Cumulative PV of Net Cash Flow for 10 years) + (PV of After-tax Residual Value)
* Tax Rate at 35% (or 0% if the Before Tax Cash Flow or Residual Value is negative).
* Discount Rate of 15%.
* Prices will....
* Revenues include....
* Expenses include....
* Residual Value of << Insert SBU Name >> refers to how much the business will be worth at the end of the tenth year, based on projected comparable sales (liquidation value) and projected sales at the end of the forecast period. Sale price is estimated at....

Assumptions

* The number of customers....
* The average size of customer orders will be....
* Expenses will....
* The number of competitors will....
* Other assumptions include....

Shareholder Value Analysis Summary

* The financial position of this business can be described as....

* The financial impact of this business on other << Insert Corporate Name >> SBUs can be summarized as....

* The shareholder value of this business compared to its outright sale value (liquidation value) today is....

SHAREHOLDER VALUE ANALYSIS (Continued)

Discussion

This page continues the shareholder value analysis with a listing of notes and assumptions used in conjunction with the shareholder value calculations. This is followed by a brief commentary on the computed shareholder value of the business.

Notes and Assumptions

The notes section should be used to define terms and to state the input values for the tax rate, the discount rate, and other variables.

The assumptions help to link the forecasted revenue and expense data to a specific strategy. For example, "Revenues will increase by 10% next year because of a planned price increase and because of the implementation of our new telemarketing system. Revenues will increase by 7% for each year after next year, primarily due to increased exports to Asia."

The forecast may be right or wrong, but at least the financial projections can be related to the business environment.

In practice, business managers should calculate shareholder value based on at least two different strategies. For example, a business might compute the shareholder value for both *Strategy X*, which includes the development of a new product for current customers; and on *Strategy Y*, which is based on marketing current products to new customers in new markets. Both strategies should be compared in terms of their impact on shareholder value.

Theoretically, there are an endless number of strategies that could be pursued, each with its own implications for success and shareholder value.

Financial analysts with personal computers armed with spreadsheet software are able to 'crunch the numbers' effortlessly. The key, however, is to link the input data fed into the spreadsheet calculations with plausible scenarios which forecast the state of the industry and the competitive position of the business.

Shareholder Value Analysis Summary

To conclude this section on shareholder value, it is appropriate to evaluate the difference between the shareholder value of the business (based on its chosen strategy) and the current sale value of the business.

In practice, if this is the first time the business is computing its shareholder value be cautioned, the results could be surprising.

Especially in large corporations, the business units with the greatest revenue are not always the most valuable in terms of shareholder value. In fact, a business unit can even have a negative value. *(Special warning to corporate planners:* a corporate planner who 'helps' a business manger of large business discover this unpleasant surprise may become less popular.)

<< INSERT SBU NAME >> HUMAN & FINANCIAL RESOURCE ALLOCATION BY ACTIVITY

*FIRM ACTIVITIES	TOTAL Number of Employees Applied	TOTAL Cost for this Activity
FIRM INFRASTRUCTURE		($000's)
General Management	0.0	$ 0
Strategic Planning	0.0	$ 0
Financial Reporting and Budgeting	0.0	$ 0
Corporate and Tax Accounting & Treasury Activities	0.0	$ 0
Auditing	0.0	$ 0
Legal Services	0.0	$ 0
Investment Strategy and Investment Management	0.0	$ 0
Insurance & Risk Management	0.0	$ 0
Real Estate & General Corporate Services	0.0	$ 0
HUMAN RESOURCE MANAGEMENT		
Human Resource Management	0.0	$ 0
Corporate Training & Development	0.0	$ 0
Employee Benefits; 401K Plans; Pensions; Life & Health Benefits	0.0	$ 0
Employee Payroll	0.0	$ 0
TECHNOLOGY DEVELOPMENT (Procedures / R&D)		
Research & Development of New Products	0.0	$ 0
Business Methods and Procedures	0.0	$ 0
PROCUREMENT (the function of purchasing inputs)		
Develop Vendor Relationships and Monitor Key Suppliers	0.0	$ 0
General Purchasing & Distribution of Supplies	0.0	$ 0
Travel-Related Purchasing	0.0	$ 0
INBOUND LOGISTICS (Receiving, storing and disseminating inputs)		
Store inputs	0.0	$ 0
OPERATIONS (Build product; provide service)		
Product Management Activities	0.0	$ 0
<< Insert Activity to Build Product or Provide Service >>	0.0	$ 0
<< Insert Activity to Build Product or Provide Service >>	0.0	$ 0
Application Development	0.0	$ 0
Voice and Data Telecommunications	0.0	$ 0
OUTBOUND LOGISTICS (Storing and shipping products to customers)		
Store finished product	0.0	$ 0
MARKETING & SALES (Pre-sale activities)		
Sales & Marketing Management	0.0	$ 0
Selling	0.0	$ 0
Market Research	0.0	$ 0
Trade Press, Communications, Advertising	0.0	$ 0
CUSTOMER SERVICE & Billing (Post-sale support)		
Billing Activities	0.0	$ 0
Customer Account Service	0.0	$ 0
Technical Customer Service	0.0	$ 0
TOTALS:	**0.0**	**$ 0**

HUMAN & FINANCIAL RESOURCE ALLOCATION BY ACTIVITY

Discussion

The goal of this analysis is to identify on one page (or maximum of two pages) all of the strategically relevant activities that the business performs, and to indicate the number of people required to perform each activity and the total cost of each activity. Identifying how many people perform each activity can usually be determined quickly.

In many companies, personnel-related expenses (salaries, benefits, office space) represent 70% or more of the company's expenses. Because people-related costs are often very large, and because people can often be re-allocated swiftly, this page is extremely important. In practice, this analysis receives a great deal of attention.

The initial list of activities shown on the opposite page is general enough to get most businesses started in building their customized value chain. In practice, however, it is usually better to refer to the list of activities as "a list of activities" and not "a value chain" because some people are programmed to resist new terms and new ways of doing things.

The level of detail of the activities listed depends on the immediate purpose of the analysis, the number of different types of activities performed, and the number of people applied to the business. Although most people find that a one page list is easier to view and to analyze, isolating strategically distinct activities sometimes requires a second page. For example, a national property and casualty insurance company could list "Claims Management" as a single activity or sub-divide the activity as follows:

"Centralized Claims Administration"
"Claims Field Office General Management"
"Claims Field Investigation, Negotiation, and Reserving"
"Claims Field Office Clerical Support"
"Claims Reinsurance, Billing & Collection"
"Claims Technical Services."

If your business is part of a larger corporation, another column should be added to show employees allocated to this business from horizontal units (cost centers). The column should be titled something like "Staff Applied From Other Areas." A cross check can later be made with the horizontal unit(s) to ensure the proper allocation. If, for example, a company has a centralized sales force of 500 people who sell for five SBUs, then the sum of number of people applied to sales from the five individual SBUs should equal 500.

If many part-time employees or consultants are used, it is useful to add another column for them as well.

As mentioned earlier, the total expenses of a business can be viewed and analyzed as the sum of all expense items on the profit and loss statement. As shown on the opposite page, the total expenses of a business can also be viewed as the sum of the costs to perform all activities. Both tools are useful; and both should be used.

Analyzing expenses by activity helps to answer the following key questions:

1. If you hire (or fire) one more person, what activity should get (lose) that person?
2. If you add (or subtract) one more dollar, what activity should receive (lose) that dollar?

Cost cutting companies can cut compensation corporate wide (using a P&L statement) or skillfully streamline staff sparing strategic strengths (by using the human resource allocation by activity table just discussed).

<< INSERT SBU NAME >> SIGNIFICANT ACTIVITIES AND THEIR COST DRIVERS

Each of the significant activities of << Insert SBU Name >> is analyzed below in terms of the cost drivers which most affect the activity (including any combination of the following cost drivers: economies of scale; capacity utilization; learning and spillover; value chain linkages; linkages with suppliers; linkages with channels; interrelationships; integration; timing; discretionary policy; location; and institutional factors).

ACTIVITY NAME:
Activity Cost: $
Percent of Total Cost: %
Activity Description:

Activity Analysis in Terms of Cost Drivers:

Approach/Alternatives for Controlling Activity Costs:

ACTIVITY NAME:
Activity Cost: $
Percent of Total Cost: %
Activity Description:

Activity Analysis in Terms of Cost Drivers:

Approach/Alternatives for Controlling Activity Costs:

ACTIVITY NAME:
Activity Cost: $
Percent of Total Cost: %
Activity Description:

Activity Analysis in Terms of Cost Drivers:

Approach/Alternatives for Controlling Activity Costs:

ACTIVITY NAME:
Activity Cost: $
Percent of Total Cost: %
Activity Description:

Activity Analysis in Terms of Cost Drivers:

Approach/Alternatives for Controlling Activity Costs:

SIGNIFICANT ACTIVITIES AND THEIR COST DRIVERS

Discussion

The purpose of this section is to truly understand the cost dynamics of each strategically significant activity. In practice, it is usually sufficient to analyze in detail the four most important activities. This will help ensure that the task is not skipped or rushed through in order to just finish it. In theory, every activity can (and eventually should) be analyzed for improvement.

At first glance, the following may look intimidating. (Some say it's intimidating on the second glance too.) But it is less frightening if viewed as a simple checklist to help analyze why an activity is relatively more or less costly by considering the impact of each cost driver.

From Michael Porter's *Competitive Advantage,* cost drivers are defined as the structural factors that influence cost and can be more or less under a firm's control. The cost drivers are:

Economies of scale: refer to declines in unit cost of a product or service as the absolute volume per period increases, or to the ability to spread fixed costs like advertising or R&D over a larger customer base.

Capacity utilization: high fixed costs of an activity imply that unit costs are affected by volume.

Learning and spillover: cost declines over time due to learning that increases efficiency.

Value chain linkages: are relationships between the way one value activity is performed and the cost of performing another activity. (For example, the better a product is designed, the fewer the service calls.)

Supplier linkages: the cost of activity can be affected by how suppliers perform their activities.

Channel linkages: the cost of activity can be affected by how channels perform their activities.

Interrelationships: sharing an activity with another corporate business can affect costs.

Integration: performing an activity in-house versus purchasing services externally can affect costs.

Timing: the cost of an activity can be affected by timing, including first-mover or late-mover advantages.

Discretionary policy: costs are affected by strategies pursued and features provided or not provided.

Location: activity location can affect the cost of the activity (as can location relative to other activities).

Institutional factors: such as government regulations and taxes can affect costs.

Each activity performed by the business should be analyzed in terms of how the activity costs are affected by the cost drivers listed above. Alternatives for controlling the costs of each activity should also be addressed. If a cost driver has no impact on a particular activity, leave it out.

Example for Shoe Manufacturing Company XYZ:

ACTIVITY NAME: **Product Development**
Activity Cost: $4 million
Percent of Total Cost: 15%
Activity Description: Worldwide product development of a full line of ladies shoes.
Activity Analysis in Terms of Cost Drivers: In 1991, in order to appreciate global economies of scale in production by using extremely expensive equipment, we streamlined our product line and switched to one manufacturing plant.
Approach/Alternatives for Controlling Activity Costs: New, flexible technology has diminished many of these economies of scale in production and will allow us to have additional production sites that can manufacture custom designed shoes based on local consumer demand; as well as minimize shipping time, shipping costs and tariffs.

<< INSERT SBU NAME >> SUPPLIER ANALYSIS

Listed below, *in priority order*, are the suppliers to << Insert SBU Name >>:

	Supplier Name	Product Supplied	Degree of Independence	1996 Actual Expenses	1997 Plan
1				$	$
2				$	$
3				$	$
4				$	$
5				$	$
6				$	$
7				$	$
8				$	$
9				$	$
10				$	$
	Other Suppliers:			$	$
	All Suppliers:			$	$

Using << Insert Corporate Name >>'s buying power, our plans to bargain down costs and to improve vendor performance include.....

SUPPLIER ANALYSIS

Discussion

This section highlights the suppliers of the business unit. Monitoring suppliers should be viewed as a key activity. Exercising buyer power can often improve profitability quickly.

The degree to which companies exercise buyer power varies widely. At a minimum, every business should analyze their top ten suppliers. In each case, evaluate potential alternatives and consider ways to bargain down prices and/or improve the product (or service) purchased.

Especially given the volatility of today's business climate, many vendors will lower their prices when asked. Technological changes have given rise to over capacity in many industries. From the point of view of many vendors, their marginal cost for keeping a customer is very low. In addition, many sales representatives are paid on commission of total sales and their fear of losing the whole account makes negotiating more rewarding.

In practice, especially for large corporations, at least one person should be responsible for tracking the top 10 vendors. There is no reason for a company not to act as a smart shopper. In some industries, the idea of not monitoring all major vendors is absurd. In some industries, particularly in financial services, the concept is often talked about, but not always applied.

Depending on the margins of the business, a dollar saved in expenses is often more valuable than selling an additional two dollars in products (or services).

Strategic Balance Sheet

(as of 12/31/96)

STRATEGIC ASSETS	Weighting Factor	1996	1995	1994
Product / Service Quality				
Product Breadth & Depth				
Innovation / New Product Development				
Market Share				
Number of Customers				
Customer Retention Rate				
Market Image				
Advertising & Direct Mail Programs				
Product Reliability				
Customer Service Quality				
Technical Knowledge of Sales Force				
Product Management Skills				
Hardware Architecture Position				
Software Architecture Position				
I/T Personnel Capabilities				
Organizational Effectiveness				
Employee Morale				
Employee Training				
Employee Retention Rate				
Pricing				
Annual Revenue				
Cost Structure Efficiency				
Annual Profit				
Margins				
Net Income Per Employee				

STRATEGIC BALANCE SHEET

Discussion

The purpose of this section is to complement the financial statements with measures of strategic health that are not presented in standard financial statements alone.

As mentioned earlier, two companies with identical financial statements are not necessarily equal. One company could be on the verge of a major upturn, the other could be out of business next year. Financial statements are also subject to (fully legal) manipulation by accounting procedures.

A sample strategic balance sheet is shown on the opposite page. It should be customized for your industry.

It is also interesting to rank or assign a weighting factor to some of the strategic balance sheet line items in terms of their relative importance. The discussion within the business unit about which factors are more important than others will help focus attention in the same way that a financial analyst weighs corporate assets differently or weighs corporate liabilities differently.

Example Strategic Balance Sheet for Office Supply Company XYZ

Strategic Assets	Weighting Factor	1996	1995	1994
Product / Service Quality	4	High	High	Average
Product Breadth & Depth	3	Very High	High	High
"				
"				
Sales Force Knowledge	2	High	High	Average
Ease of Shopping in Store	3	Very High	High	Average
Speed of Check- Out Lines	3	Average	Fast	Slow
Cleanliness of Stores	2	Very High	High	Average
Payment Options	3	Very High	High	Average
Store Locations	4	Excellent	Excellent	Good
Number of Store Locations	5	202	180	155
Availability of Parking	3	Very High	High	Average
Speed & Reliability of Delivery Service	2	High	High	Average
Inventory Management System	4	Very High	Average	Average
"				
"				
Margins	-	Very High	High	Average
Net Income Per Employee	-	Very High	High	Average

Example Strategic Balance Sheet for Biotech Company XYZ

Strategic Assets	Weighting Factor	1996	1995	1994
Number of Successful Trials	3	400	100	10
Percent of Trials Successful	4	99%	95%	90%
Number of Patents	5	3	3	1

<< INSERT SBU NAME >> PROGRESS REPORT

Progress Report

(as of 12/31/96)

	Original Commitment DATE	PREVIOUSLY RECORDED ACTION PLAN	CURRENT STATUS & COMMENTS
1.	/ /		
2.	/ /		
3.	/ /		
4.	/ /		
5.	/ /		
6.	/ /		
7.	/ /		
8.	/ /		
9.	/ /		
10.	/ /		

PROGRESS REPORT

Discussion

The purpose of this section is to track the progress of previously recorded action plans.

If this is the first strategic plan for a new business, this section should initially be left blank.

In the corporate environment, if this is the first formal plan for an existing business, previously recorded action plans should still be listed to show corporate management that things have been accomplished in the past, and to highlight the concept that this is an ongoing planning process that will be monitored, rather than a one-time document to be read and discarded.

In some cases, listing the person responsible for completing a previously recorded action plan is desirable. However, there is a delicate balance between ensuring personal accountability and spending too much time blaming others for poor results.

Example Progress Report for Company XYZ:

Progress Report
As of 6/30/95

	Original Commitment Date	Previously Recorded Action Plan	Current Status and Comments
1.	7/15/94	Develop Product X by 6/1/95	Project completed on time.
2.	9/30/94	Install System Y by 3/31/95	Project completed one month late; 5% over budget; users are delighted with the new functionality; the system will save more than $1 million this year.
3.	4/1/95	Purchase Mexican Firm as soon as possible	We signed an agreement with InterAmericas Corp. of Greenwich, CT. Their specialty is locating strategic partners in Mexico and other parts of Latin America. After one month they selected four excellent candidates. We have been meeting with representatives from each company and we plan to make a bid for at least one company by December.

APPENDIX A

INDUSTRY GLOSSARY AND ABBREVIATIONS

<< INSERT INDUSTRY NAME >> GLOSSARY

-
-
-

ABBREVIATIONS

DCF	- Discounted Cash Flow
EIS	- Executive Information System
I/S	- Information Systems
I/T	- Information Technology
LAN	- Local Area Network
MIS	- Management Information System
M	- Million(s)
P&L	- Profit and Loss (Statement)
PV	- Present Value
ROE	- Return on Equity
ROI	- Return on Investment
SBU	- Strategic Business Unit
SHU	- Strategic Horizontal Unit

APPENDIX A

INDUSTRY GLOSSARY AND ABBREVIATIONS

Discussion

The purpose of this appendix is to define terms and abbreviations used by the business in order to promote a common language and facilitate better communication.

Because the strategic plan involves a cross-section of all functions within the firm and because most business managers are not totally familiar with the terminology of every other functional area, the glossary and the list of abbreviations are very useful in moving everyone up the learning curve.

GLOSSARY

The glossary should include all industry and technical terms which are not commonly understood by all intended readers of the SBU competitive strategy document. Terms should also include common terms that have ambiguous meanings. For example, what does it mean to increase sales by 5%? It could mean selling 5% more in product volume, or it could mean selling 5% more in terms of revenue. It could mean an increase in *new* customer sales by 5% over last year, or it could mean 5% net new sales after first subtracting lost business.

The goal is clarity.

ABBREVIATIONS

As most businesses use abbreviations, it also helps to facilitate communication by listing them too.

Development of the Strategic Business Unit Competitive Strategy

CHAPTER 2 SUMMARY

Chapter highlights:

- ✓ Ensure that the proposed business that is ready to develop a competitive strategy is actually one business, and not two or more businesses or just a piece of one business;
- ✓ Analyze the industry as objectively as possible;
- ✓ Choose a competitive strategy based on a clear understanding of competitive advantage;
- ✓ Make sure that the resource allocations, action steps, and internal and external communication plans all reinforce the chosen strategy.

The following chapter describes how to develop a Horizontal Unit (cost center) *Statement of Direction.*