Supplement – The Strategic Analysis Process and Performance Analysis

IMPORTANT
Keep this handy because we will refer to it often!!!

THE PROCESS OF STRATEGIC ANALYSIS

STEP 1: EVALUATE CURRENT BUSINESS PERFORMANCE

Assess the operating performance and organizational health of the business.

THE PROCESS OF STRATEGIC ANALYSIS

STEP 2: EVALUATE CURRENT STRATEGY AND ASSESS THE URGENCY FOR CHANGE

- Identify the current strategy
- Evaluate current strategy, including its fit with the environment and resources/capabilities
- Decide on the nature and urgency of any required changes

THE PROCESS OF STRATEGIC ANALYSIS

STEP 3: DEVELOP AND EVALUATE STRATEGIC PROPOSALS

- Generate new proposals based on previous analysis
- Shape and evaluate proposals – consider fit between strategy, environment, and resources/capabilities
- Prepare performance projections for each proposal to see if desired performance estimates can be met

THE PROCESS OF STRATEGIC ANALYSIS

STEP 4: COMMIT AND PREPARE TO IMPLEMENT

- Decide on the proposal(s) to implement
- Plan to build required commitment and capabilities
- Develop a detailed implementation plan

TESTING THE QUALITY OF A STRATEGY

<table>
<thead>
<tr>
<th>Key Evaluation Criteria</th>
<th>Sub-questions</th>
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| 1. Does your strategy exploit your key resources? | • Will your particular mix of resources, does this strategy give you an advantageous position relative to your competitors?  
• Can you pursue this strategy more economically than competitors?  
• Do you have the capital and managerial talent to do all you envision?  
• Are you operating too thin? |
| 2. Does your strategy fit with current industry conditions? | • Do the healthy profit margins where you’re headed?  
• Are you well aligned with the key success factors of your industry? |
| 3. Will your differentiators be sustainable? | • Will competitors have difficulty imitating you?  
• If imitation cannot be foreclosed, does your strategy include a ceaseless regimen of innovation and opportunity creation to keep distance between you and the competition? |
| 4. Are the elements of your strategy consistent and aligned with your strategic position? | • Has your chosen choice of assets, vehicles, differentiators, and staging, and economic logic?  
• Do they all fit and mutually reinforce each other? |
| 5. Can your strategy be implemented? | • Will your stakeholders allow you to pursue this strategy?  
• Do you have the proper complement of implementation levers?  
• Is the management team able and willing to lead the required change? |
Evaluation of the Performance of a Company is both science and art. Requires Assessing Two Different Areas:
- Operating Performance
- Organizational Health

ASSESSING OPERATING PERFORMANCE

Accounting Statements and Operating Performance
- Income Statement – results of operations over a period of time
- Balance Sheet – a snapshot of finances at a point in time
- Cash Flow Statement – actual money flows over a period of time

See Appendix A

ASSESSING ORGANIZATIONAL HEALTH

Assessing Organizational Health can be tricky - You cannot simply turn to the "health statements" for the company
- Consider information within the company write up
- Pay particular attention to evolution of the company over time
- Look for news stories on the company
- Where possible, talk to company employees (especially the "rank and file")

ASSESSING PERFORMANCE

PERFORMANCE METRICS

Some financial and non-financial performance metrics

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<thead>
<tr>
<th>Financial performance metrics (Operating performance)</th>
<th>Non-financial performance metrics (Org. health)</th>
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<tbody>
<tr>
<td>• Return on sales</td>
<td>• Customer retention</td>
</tr>
<tr>
<td>• Return on assets</td>
<td>• Customer satisfaction</td>
</tr>
<tr>
<td>• Return on equity</td>
<td>• Customer complaints</td>
</tr>
<tr>
<td>• Sales per employee</td>
<td>• Employee satisfaction</td>
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<tr>
<td>• Sales growth</td>
<td>• Employee turnover</td>
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<tr>
<td>• Inventory turn</td>
<td>• Product returns</td>
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<tr>
<td>• Accounts receivable turn</td>
<td>• Product quality</td>
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<tr>
<td>• Debt ratio</td>
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<tr>
<td>• Current ratio</td>
<td>• New products released</td>
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<tr>
<td>• Cost reduction</td>
<td>• Product development speed</td>
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<td></td>
<td>• Reputation</td>
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<td>• Management development</td>
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Disaggregating ROCE in Order to Diagnose Past Performance and Set Targets for Future Performance

ROCE

Return on Sales

Sales/Capital Employed

Disaggregating ROCE

COGS/Sales
Depreciation/Sales
SGA expense/Sales
Fixed Asset Turnover
Inventories
Creditor Turnover
Sales/Accounts Receivable
Turnover of other items of working capital

A COMBINED VIEW OF ORGANIZATIONAL PERFORMANCE

ORGANIZATIONAL HEALTH

1. OK
2. Complacent Organization
3. Troubled Organization
4. Crisis

Operating Performance