

**STRATEGIC CHANGE GROUP
INTRODUCTORY TRAINING PROGRAM**

Basic Strategic Concepts and Competitive Analysis

January 1997

The following material was used by Price Waterhouse LLC during an oral presentation and discussion. Without the accompanying oral comments, the text is incomplete as a record of the presentation.

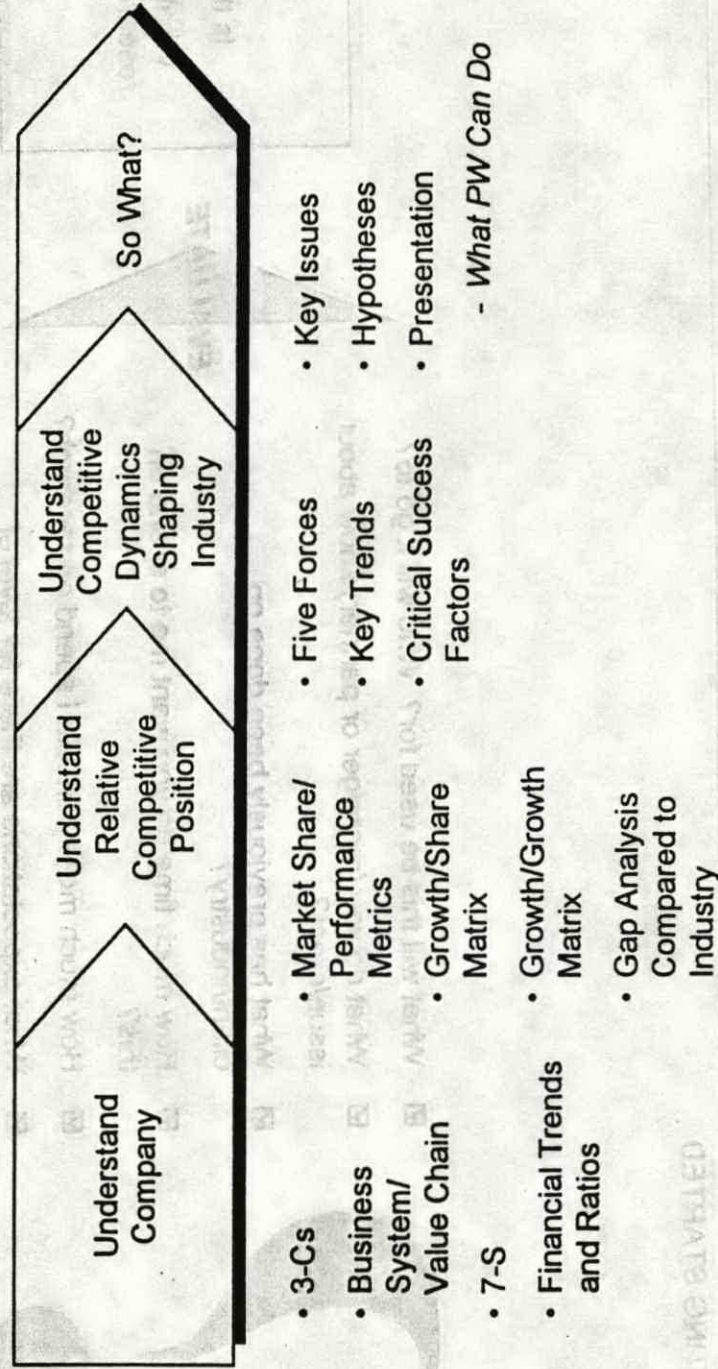
Price Waterhouse LLC



STRATEGIC ANALYSIS

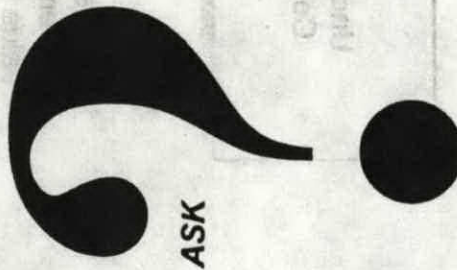
We frequently employ several strategic models that aid our understanding of the business and help us frame strategic position and issues. The particular tools and techniques that will be used in any given analysis will depend on the client, the situation, available information, or the issues.

STRATEGIC AND ANALYTICAL TECHNIQUES

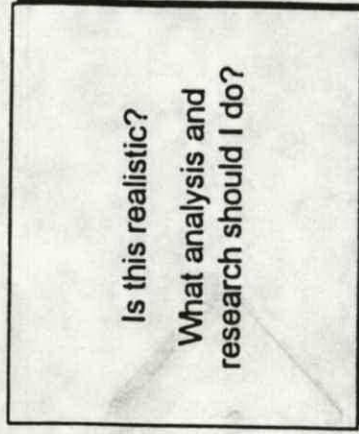
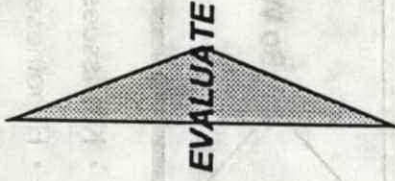


Once you get the answers to some basic questions, you can plan your research and analysis. With experience, you will get better at evaluating the expectations, identifying resources and efficiently preparing these important background materials and analysis.

GETTING STARTED



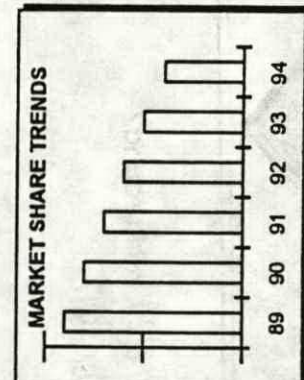
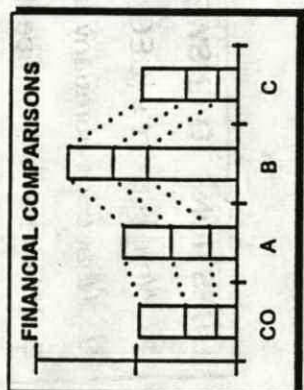
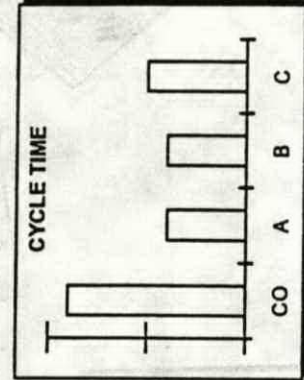
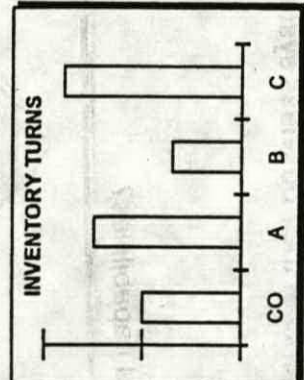
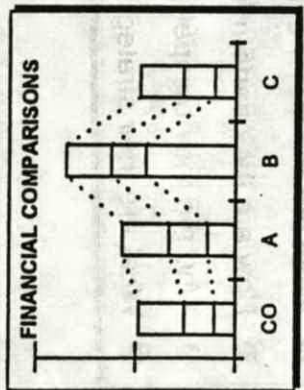
- What will this be used for? Who will it go to?
- What do you (manager or partner) know about issue/client?
- What has previously been done on client/industry?
- How much time do you want me to spend on this?
- How much money should I spend on research?
- What expectations are there for level of detail/output?



Here are several examples of the different ways that an analysis might be structured to fit the end use. You should try to lay out skeletons of the slides you think you need prior to beginning the analysis.

TAILOR PRESENTATION TO END USE

ILLUSTRATIVE



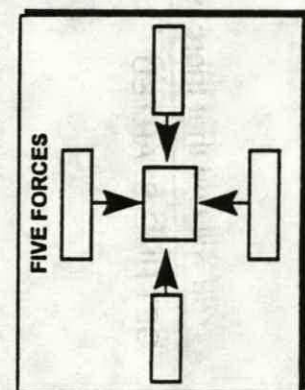
HYPOTHESES

Issues

- XXXXX
- XXXXX
- XXXXX
- XXXXX

Back-Up

- XXXXX
- XXXXX
- XXXXX
- XXXXX



CRITICAL SUCCESS FACTORS

- XXXXXXXXXXXX
- XXXXXXXXXXXX
- XXXXXXXXXXXX
- XXXXXXXXXXXX

TRENDS

- XXXXXXXXXXXX
- XXXXXXXXXXXX
- XXXXXXXXXXXX
- XXXXXXXXXXXX

PROPOSAL SLIDES FOR REENGINEERING LOGISTICS

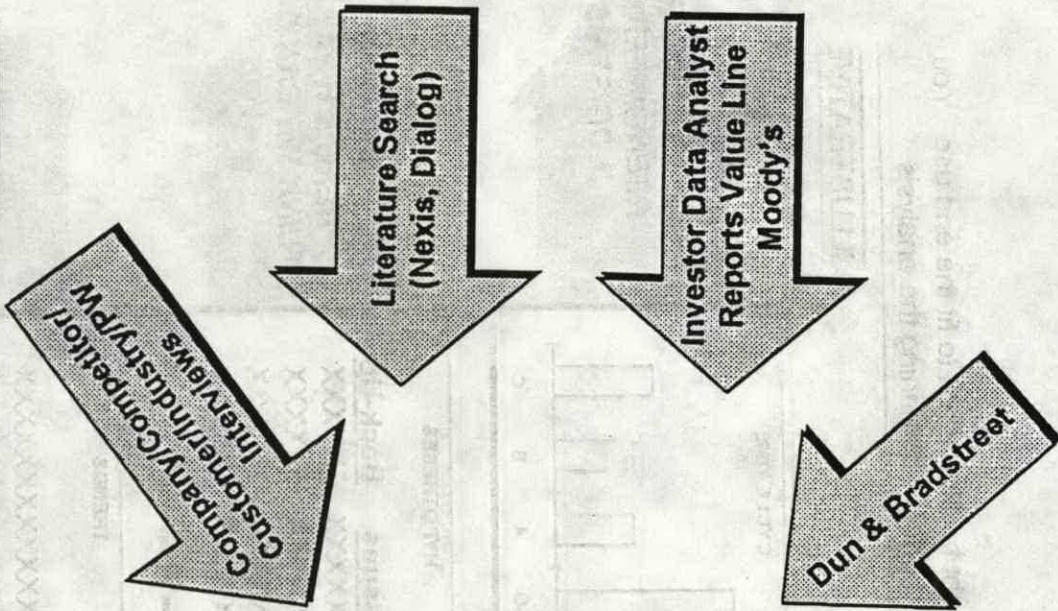
HERE'S WHAT WE THINK WE CAN DO FOR YOU

WE KNOW YOUR INDUSTRY



Understand Company

You will find that there is usually no shortage of information—the bigger issue is how to frame and organize it.
GETTING STARTED



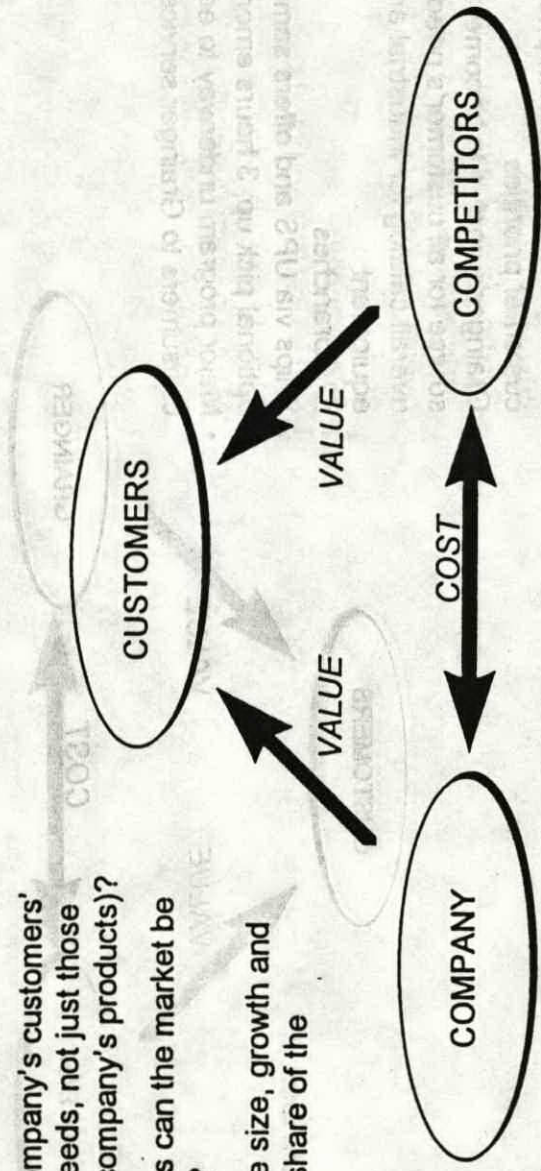
- QUESTIONS TO ANSWER:**
- 1 What is client's (CEO, CFO, etc.) background?
 - 2 What does company make or sell?
 - 3 Who are their competitors?
 - 4 What are the major components of their business system?
 - 5 How are they performing?
 - 6 Who are their competitors?
 - 7 What are their strategies and capabilities?



The 3-Cs, or strategic triangle, framework is useful for depicting the relationship a company has with its customers and competitors. In addition, it can be used for the more value-added analyses of identifying opportunities for establishing a competitive advantage and better meeting customer needs.

3-Cs COMPONENTS

- What are company's customers' needs (all needs, not just those met by the company's products)?
- In what ways can the market be segmented?
- What are the size, growth and company's share of the segments?



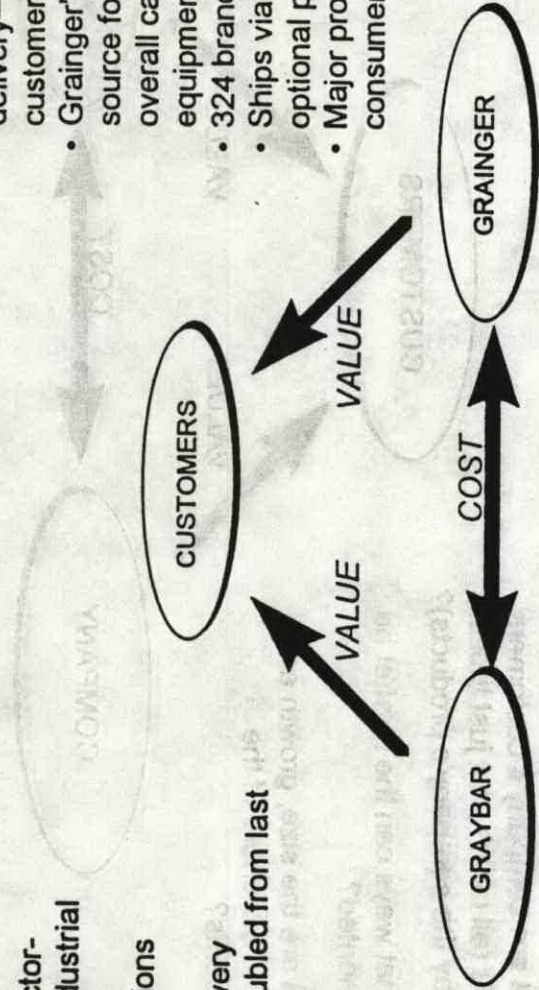
- What is the value offered to each market segment by the company and its competitors?
- What are the key functions and the costs of each function performed by the company and its competitors (Business System)?

This example shows how this framework is a useful way to effectively organize your basic research hypotheses and observations.

3-Cs EXAMPLE: GRAYBAR

- Currently operating in 3 closely related markets
 - Electrical contractor-commercial & industrial
 - Power utility
 - Telecommunications
- 210 branches
- 24- to 48- hour delivery
- 1,200 suppliers (doubled from last year)

- Ease of product availability and speed of delivery—not rock bottom pricing—are key customer priorities
- Grainger's goal is to become the primary source for all customer's needs; has one overall catalog for industrial and commercial equipment
- 324 branches
- Ships via UPS and offers same day delivery or optional pick up; 3 hours emergency delivery
- Major program underway to educate consumers to Grainger services and products



	'90	'89	%Δ
Net Sales (\$MM)	1,884	1,893	-0.1%
Operating Margin	1.6%	1.6%	0
CGS (as % of sales)	83%	83%	0

	'90	'89	%Δ
Net Sales (\$MM)	1,935	1,727	+12%
Operating Margin	10.5%	11.1%	-5%
CGS (as % of sales)	65%	65%	0

- Published two catalogs in 1990
 - Data communication products
 - Electrical products (30% new material; 804 pages)
- Most branches cam on-line to computer order and purchase systems

- Aggressive branch expansion (110 new in last 3 years)
- Widening product line (4,000 new items in last 2 years)
- Grainger publishes one catalog for core business and updates it 2x/year; catalog also available on disk
- Creation and expansion of speciality divisions as outlet for growth

When putting the "so what" or the more value-added thought into the analysis—there are some typical questions that can lead you to potential gaps, opportunities or issues.

3-CS: KEY QUESTIONS TO ASK

CUSTOMERS

- Are customer wants well-defined and understood by the industry?
- Is the market segmented so that differences in those wants are treated appropriately?
- How are the size and demographic composition of the market changing and what are the implications of this change?

COMPANY

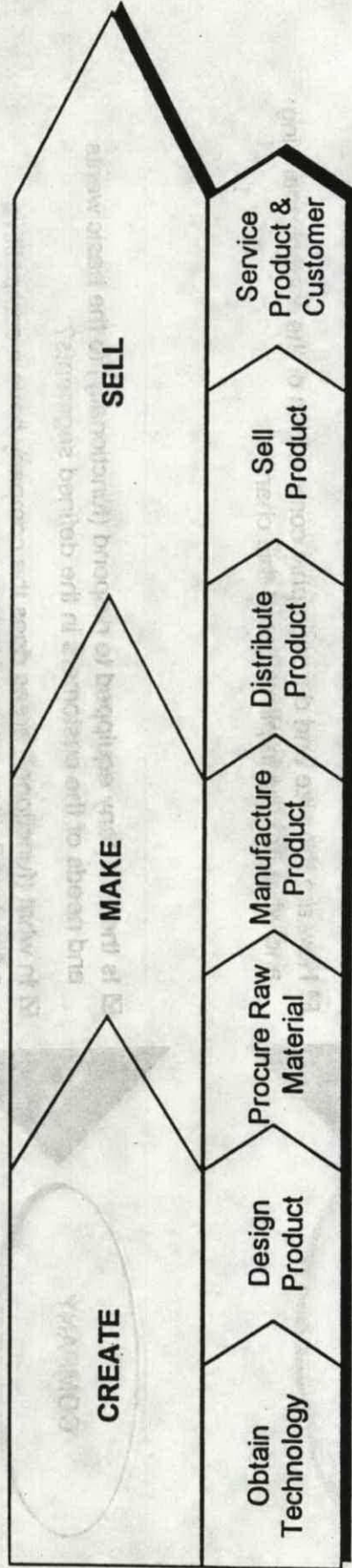
- Is the company equipped to respond (functionally) to the basic wants and needs of the customers in the defined segments?
- In what (functional) areas does the company have a competitive advantage? How might it exploit that advantage?

COMPETITORS

- Do competitors have a different set of operating conditions that could give them a relative advantage?
- How are competitors focusing their efforts to establish a competitive advantage?

Initially, the business system is used with the 3-Cs to help understand how companies deliver value. With more in-depth analysis, it can be used to determine where a company possesses strategic advantage or disadvantage.

BUSINESS SYSTEM COMPONENTS

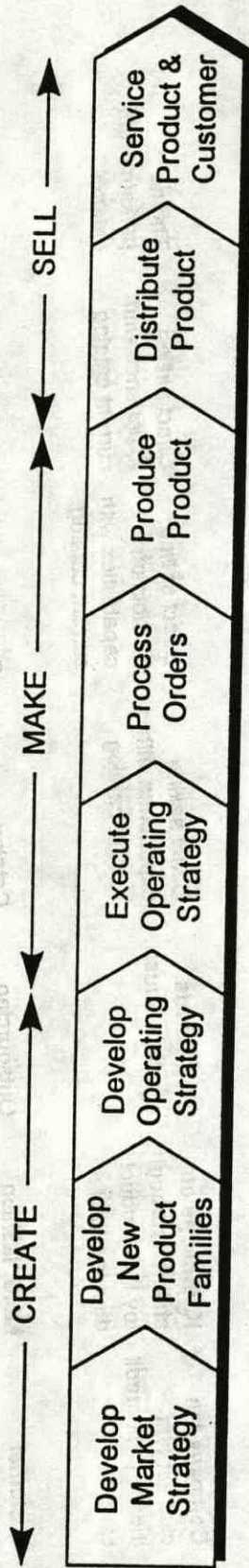


FIRST STEP:

Break the company's business into the appropriate components contributing to the "create, make, or sell" process and characterize the company's approach in each component

As with the 3-Cs, the first step likely starts out being descriptive, but forms the basis for the more value-added analysis to follow. You might look at a business system for a particular functional area or entire company.

SEMICONDUCTOR EXAMPLE



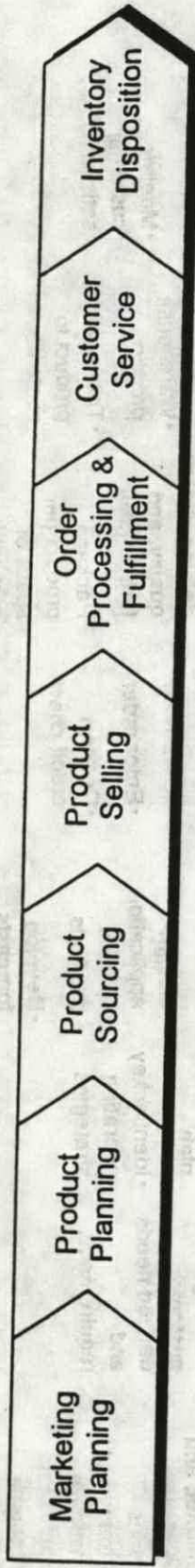
ORDER FULFILLMENT ACTIVITIES

- Identify core competencies
- Identify product, market, and customer focus
- Design products to be first to market with products meeting customer defined needs and requirements
- Identify key customers
- Identify technology plan
- Identify key operating strategies
- Inform customer of offerings
- Train distributors
- Design application specific products
- Develop forecasts
- Allocate orders/capacity
- Qualify customers
- Develop contract T&C
- Determine commit date and pricing
- Enter order
- Perform credit check
- Produce product to meet customer desired delivery date, quality, and functionality
- Package product per specs of customer
- Transport product from assembly locations
- Warehouse product
- Transport product to customer
- Invoice customer
- Process returns
- Monitor credit limits and A/R
- Monitor customer satisfaction

The business system framework can also be used to structure your analysis on critical success factors and strategic sources or advantage or gaps when comparing a company's approach and strengths with those of its competitors.

VALUE CHAIN SYNERGIES/GAPS

CLIENT EXAMPLE



CRITICAL SUCCESS FACTORS

Cost effective circulation strategy and prospecting	Product line assortment pricing and inventory optimization	Optimization of manufacturing efficiencies or outsourcing opportunities	Optimize operating margin contribution	On-time delivery and quality maintenance	Prompt complaint/inquiry resolution	Outlets for excess inventory
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POTENTIAL CAPABILITIES/ ASSETS TO LEVERAGE

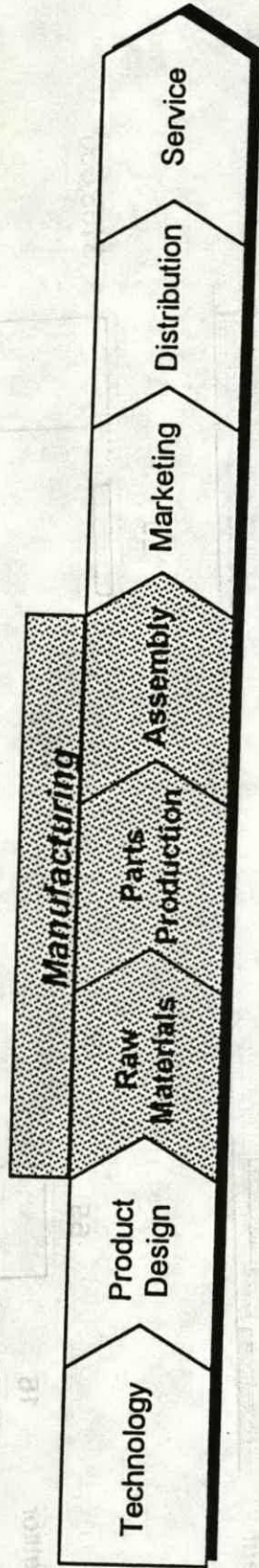
Company fan club list and theme park credit card list	Knowledge of children through toy line product development	All products made in-house	Direct selling experience with current catalog	Direct selling, distribution capabilities with current catalog	Direct selling experience with current catalog	Theme parks/current catalog
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STRATEGIC GAPS TO BE FILLED

Customer database management	More "fashion" oriented apparel knowledge and merchandising	Outsourcing	Catalog merchandising and layout expertise	Drop ship and Pick 'n' Pack capabilities	More world-class service/performance to meet competitive standards	Partnerships with retail
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We can also examine how companies can gain an advantage through differentiation within and across the business system. This is useful when trying to define a strategy for a new industry.

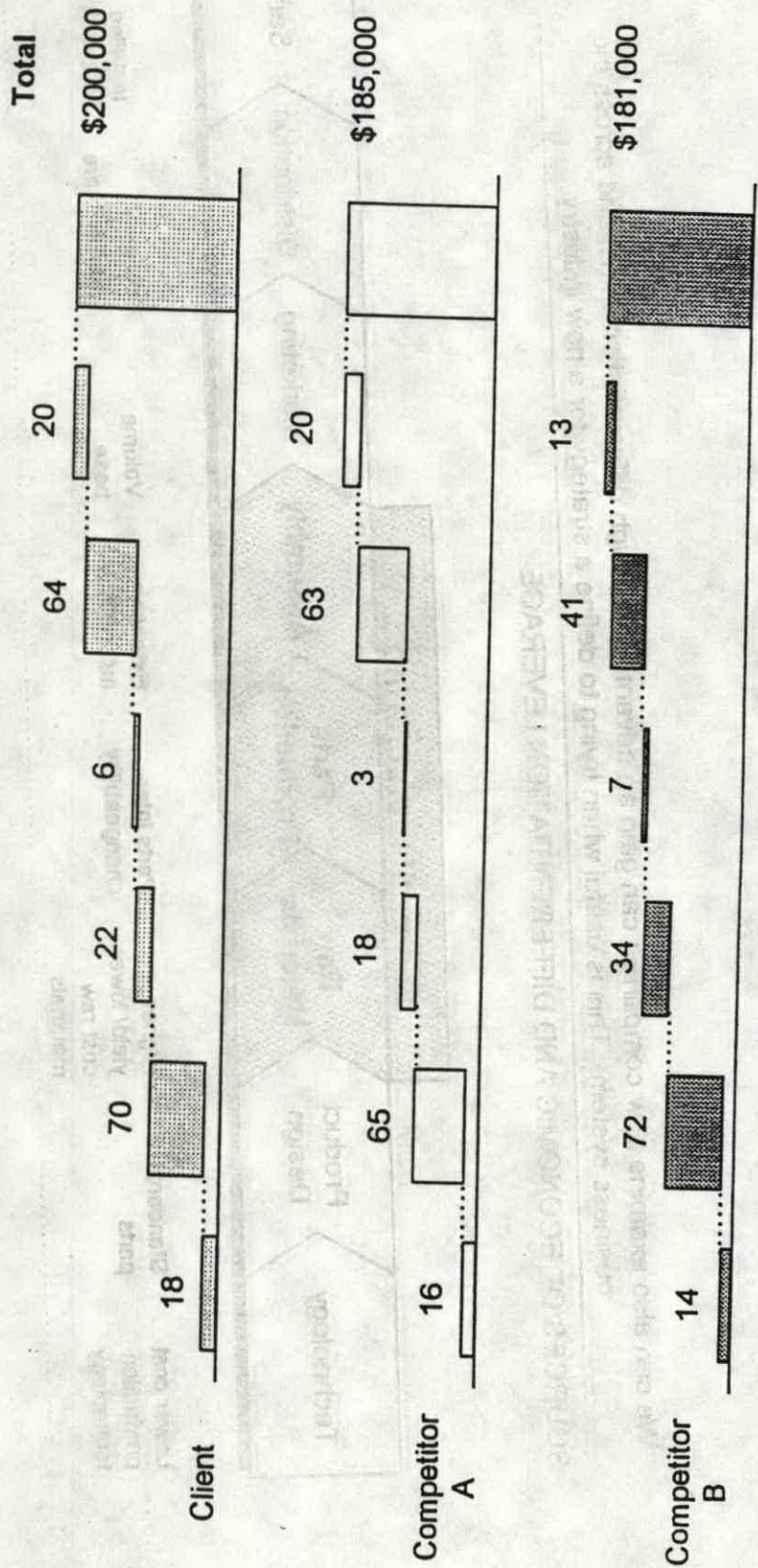
SOURCES OF ECONOMIC AND DIFFERENTIATION LEVERAGE



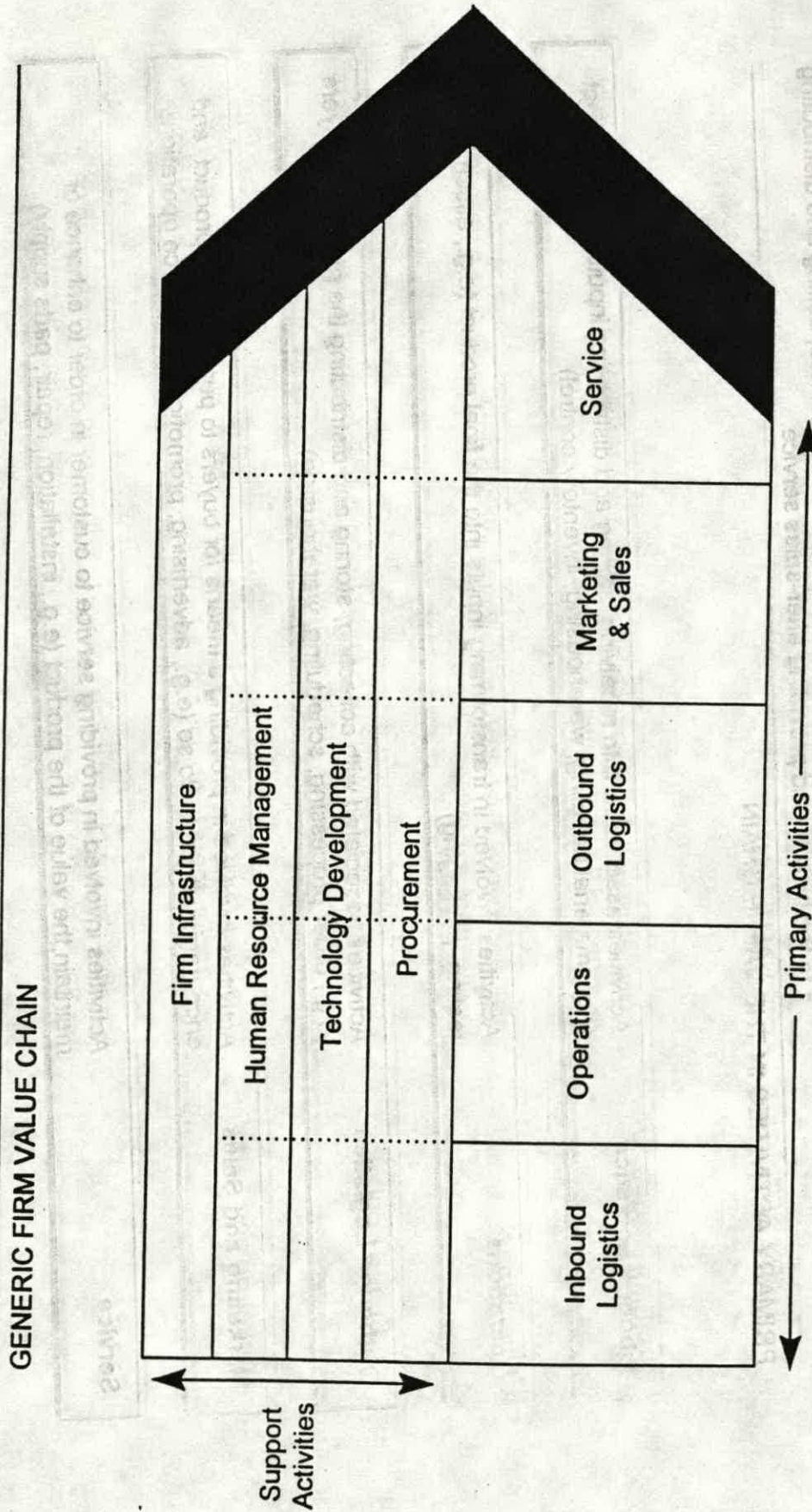
	Technology	Product Design	Raw Materials	Parts Production	Assembly	Marketing	Distribution	Service
Potential Economic Leverage	Lower cost production technology	Standard parts	Higher yield/ lower cost raw materials	Parts interchangeability	Extensive automation	Volume base	Regional market share	Installed units base
Industry Example	Chlorine	Copiers	Aluminum, coal	Automobiles	Semi-conductors	Office machinery	Edible oils	Household appliances
Potential Source of Differentiation	Patent-protected product technology	Feature-rich, high-quality product	Assured raw material sources	Production lead times	Quality control	Broad customer coverage	Exclusive distribution	Worldwide service network
Industry Example	Insecticides, herbicides	High-end scientific/business calculators	Oil	Electronic watches, calculators	Automobiles	Office machinery	Electrical installation equipment	Ship diesels

Economic comparisons with the business system framework allow identification of overall cost structure as well as key cost elements (leverage points). Thus, we can explore ways in which companies can gain economic leverage by changing the business system to alter the cost structure.

BUSINESS SYSTEM EXAMPLES



While we tend to use the names value chain and business system interchangeably, they are slightly different. A value chain allows you to group activities according to their underlying economics versus the business systems more process focus. The value chain is also effective for showing and analyzing competitive or potential cost structures.



Source: Competitive Advantage, Michael Porter (1985)



Primary activities are those a firm performs in physically creating a product or service, selling and distributing it to the buyers and providing after-sales service.

PRIMARY ACTIVITIES IN THE VALUE CHAIN

Inbound Logistics	Activities associated with receiving, storing and distributing inputs to the product (e.g., material handling, warehousing, inventory control)
Operations	Activities involved in transforming inputs into the final product (e.g., assembly, testing, packaging)
Outbound Logistics	Activities associated with collecting, storing and distributing the product to buyers (e.g., order processing, scheduling, warehousing)
Marketing and Sales	Activities involved in providing a means for buyers to purchase the product, and encouraging them to do so (e.g., advertising, promotion, sales force operations)
Service	Activities involved in providing service to customer in order to enhance or maintain the value of the product (e.g., installation, repair, parts supply)

Source: Competitive Advantage, Michael Porter (1985)

Secondary activities are those involved in providing purchased inputs, technology, human resources and other company-wide functions. These activities may be associated with specific primary activities or support the entire value chain.

SUPPORT ACTIVITIES IN THE VALUE CHAIN

Procurement

Activities involved in purchasing inputs used in all segments of the firm's value chain. Inputs include not only raw materials but also machinery, office equipment, suppliers, buildings and services used by the firm (e.g., consulting services)

Technology Development

Activities involved in improving the product and the process, including basic research, product design, process equipment design and technology development which supports other activities. It does not refer only to technologies directly linked to the end product.

Human Resources Management

Activities associated with recruiting, hiring, training, developing and compensating personnel

Firm Infrastructure

A range of activities which support the entire value chain, including general management, planning, finance, accounting, legal, etc.

Source: Competitive Advantage, Michael Porter (1985)

While you may use a value chain from time to time, generally the business system better fits our needs. It is a framework to both structure observations and analysis on processes and analyze key leverage points, gaps and sources for competitive advantage.

BUSINESS SYSTEM ANALYSIS SUMMARY

Competitive advantage can only be obtained through lower costs, product differentiation or a combination of the two in selected segments.

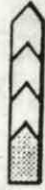
The business system framework enables us to consider gaining a competitive advantage in several ways:

- superior execution in one or more functions
- superior management across the functions
- control of scarce resources
- tailoring functions to a particular customer group
- creation of a superior business system

Examination of business system element costs allows us to identify key leverage points and focus future analyses.

Comparison of perceived customer value with the product differentiation attributes of each business system element allows us to identify a client's key sources of product differentiation.

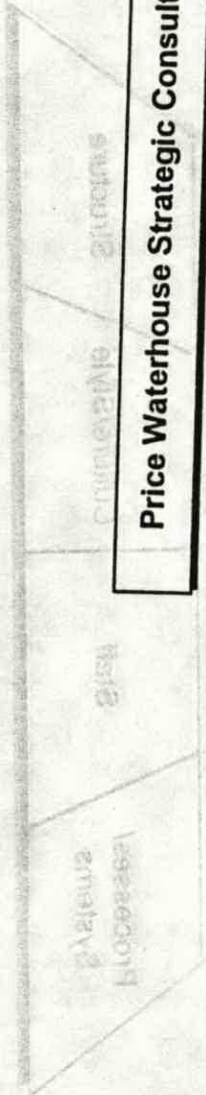
A competitive advantage either through lower costs, product differentiation or both can come from any element of the business system.



Please break into groups of 4 to perform the following exercise. Prepare an overhead to share with the group.

BUSINESS SYSTEM EXERCISE

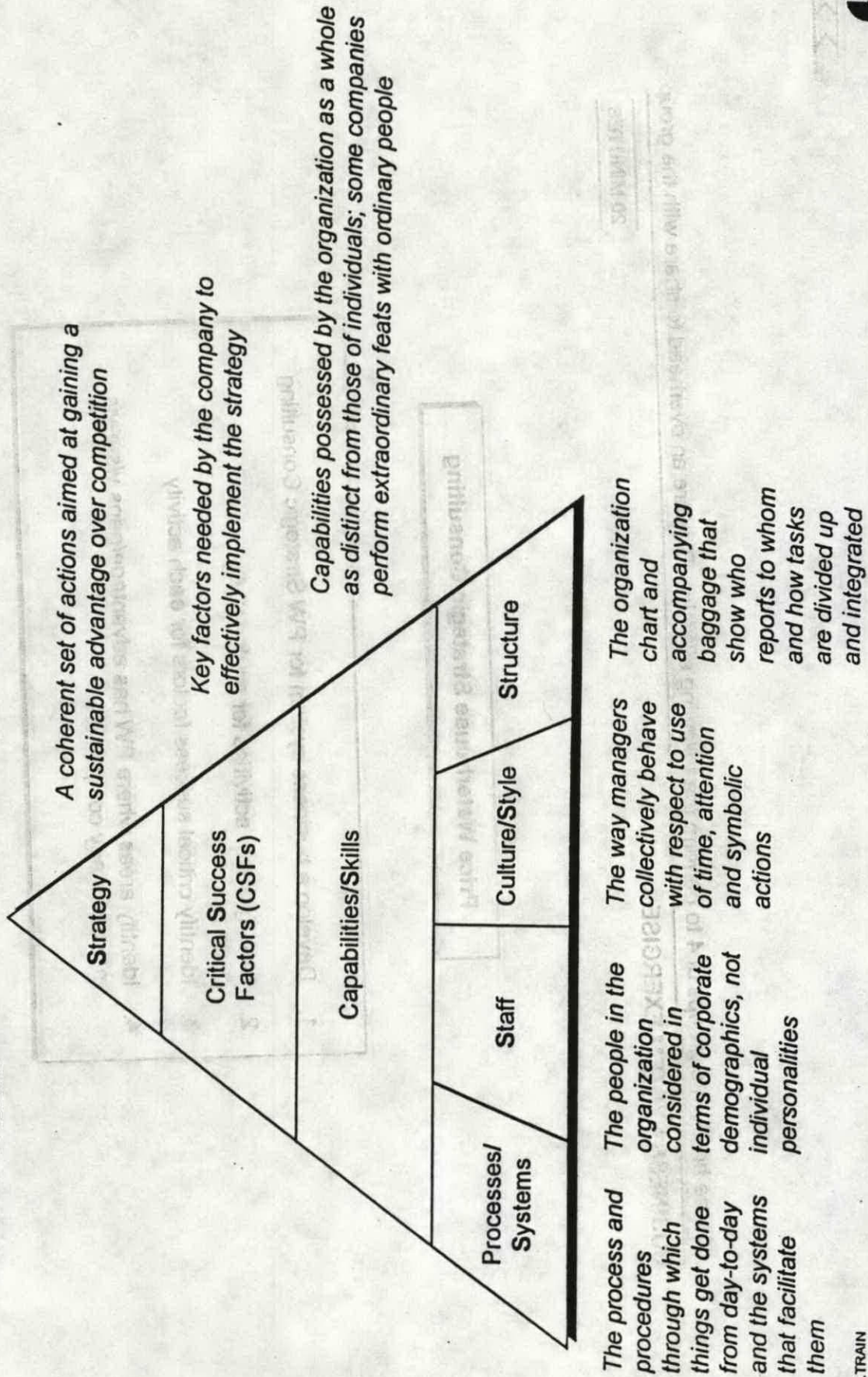
20 MINUTES



1. Develop a business system for PW Strategic Consulting
2. Identify major activities for each activity
3. Identify critical success factors for each activity
4. Identify areas where PW has advantage/gaps vis-a-vis major strategy competitors

The 7-S framework provides a means to analyze the building blocks of an organization that ultimately serves to support its strategy. The bottom level of the pyramid represents the more tangible components of the company which provide the foundation for achieving the company's goals. This analysis is generally the most difficult without direct company access.

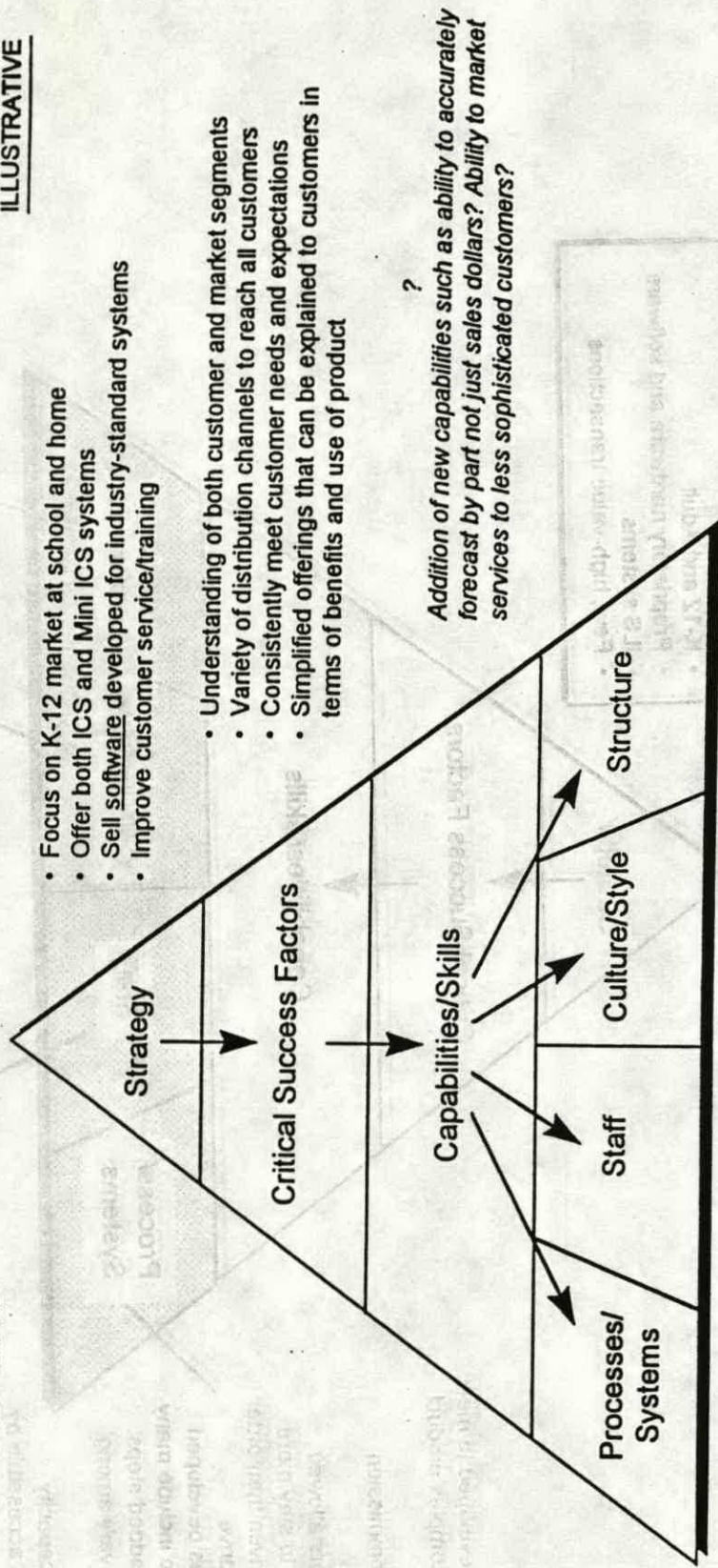
7-S COMPONENTS



There are several permutations of the 7-S framework that can be used to fit each situation. These are extremely powerful at identifying high-level strategic and organizational incongruencies or issues within a company. In this example, we found the strategy of the company had changed but not the underlying structure and capabilities.

7-S EXAMPLE

ILLUSTRATIVE



- Focus on K-12 market at school and home
- Offer both ICS and Mini ICS systems
- Sell software developed for industry-standard systems
- Improve customer service/training

- Understanding of both customer and market segments
- Variety of distribution channels to reach all customers
- Consistently meet customer needs and expectations
- Simplified offerings that can be explained to customers in terms of benefits and use of product

?
 Addition of new capabilities such as ability to accurately forecast by part not just sales dollars? Ability to market services to less sophisticated customers?

- ? Ability to process higher volumes of lower-value transactions? Systems capable of supporting multiple channels? hardware vendors?
- ? Expertise at software design, sales and fulfillment versus hardware design and configuration?
- ? How does the culture affect implementation of the strategy? Do performance measures support the goals?
- ? Organization structured around market segment of distribution channel versus regions?

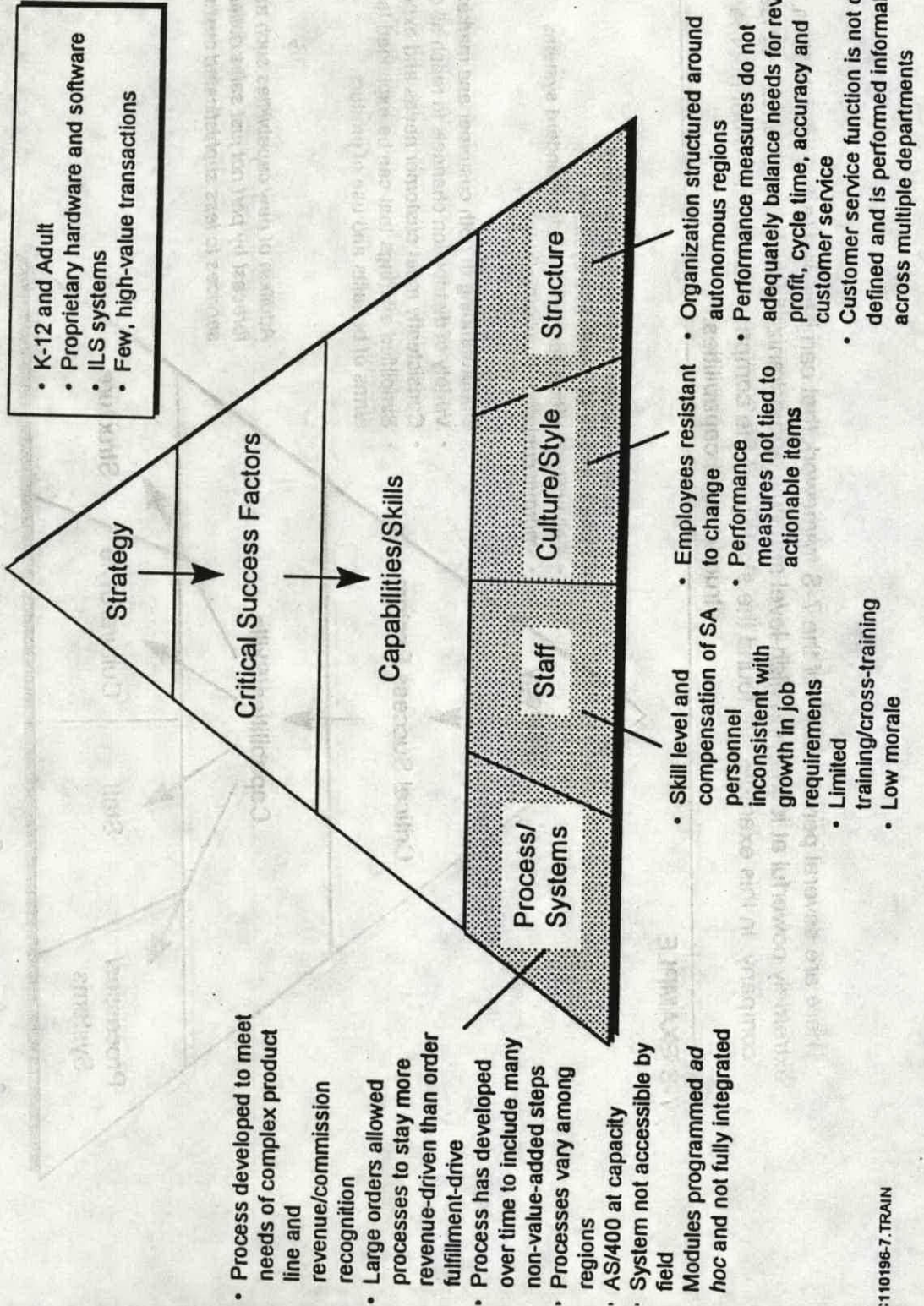
Note: List is not intended to be complete
Source: Client internal communications; PW interviews



Our observations showed that not only was the business aligned to meet the old strategy, but also there were key structural issues as well.

7-S EXAMPLE (CONTD)

ILLUSTRATIVE



While the 7-S system is an extremely powerful tool, caution must be used when developing and analyzing it. The observations can be soft (and subject to different points of new), politically volatile and difficult to make.

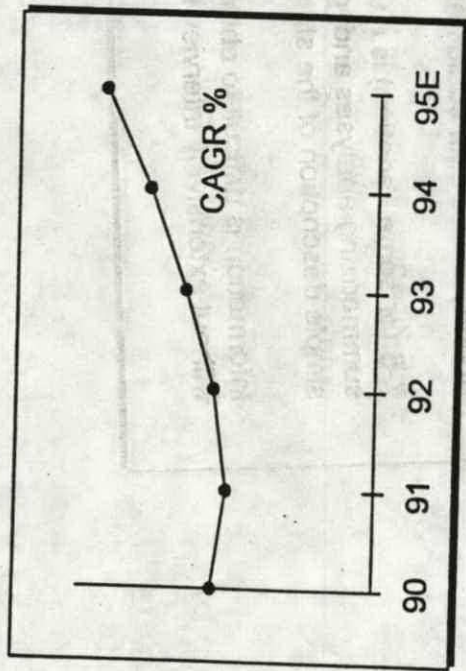
7-S SUMMARY

- Use the 7-S framework to structure "softer" issues, such as the impact an underqualified staff could have on the achievement of strategic objectives
- 7-S (or some variation) is a useful starting point for structuring and summarizing analyses and, generally, push the analyses beyond a simple description of the status quo
- Information is difficult to obtain in some areas (e.g., culture and systems) without extensively interviewing company personnel – don't just guess

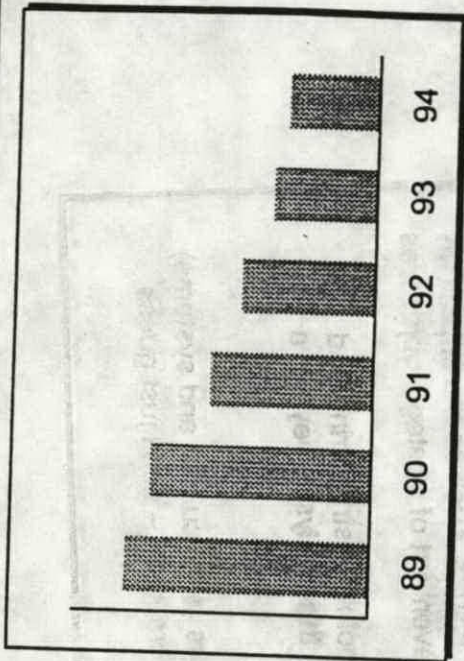


Along with the analytical tools, include any other performance or descriptive data that is relevant to your analysis or to the understanding of the company.

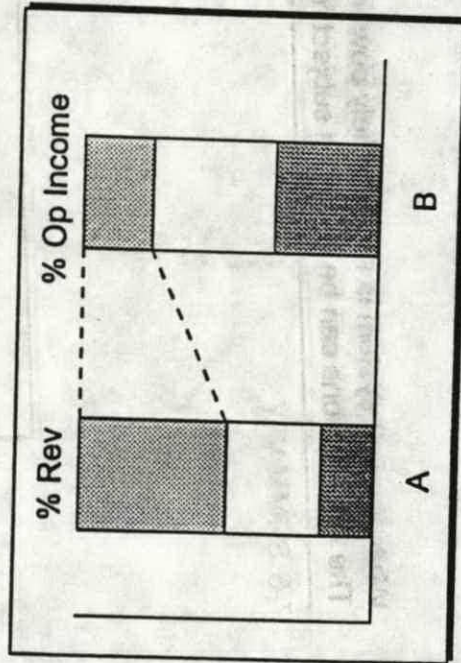
OTHER EXAMPLES



Sales Trend

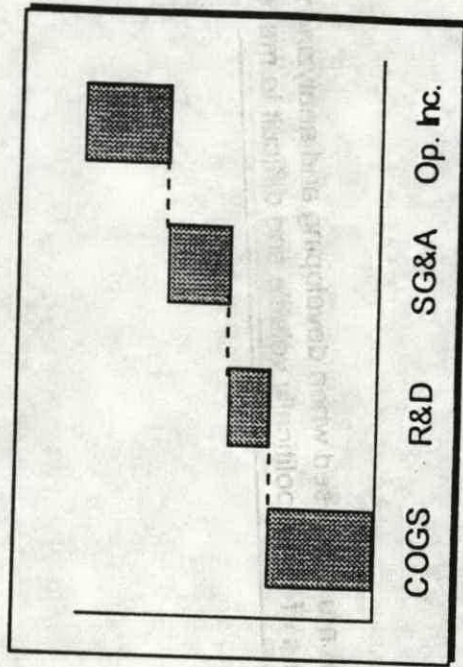


Gross Margin Trends



Profit by Product/Business Unit

ILLUSTRATIVE

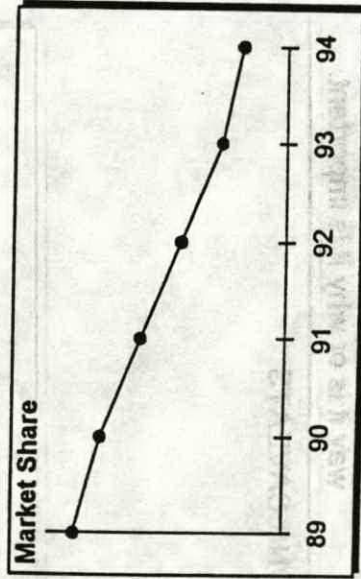
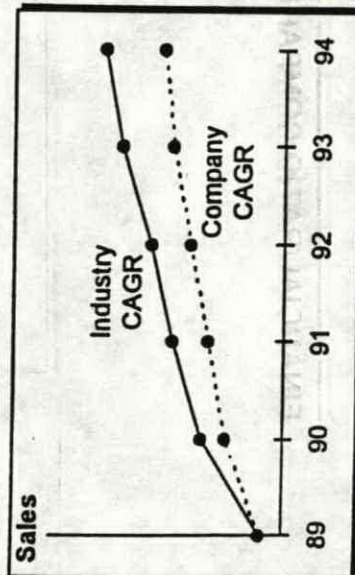
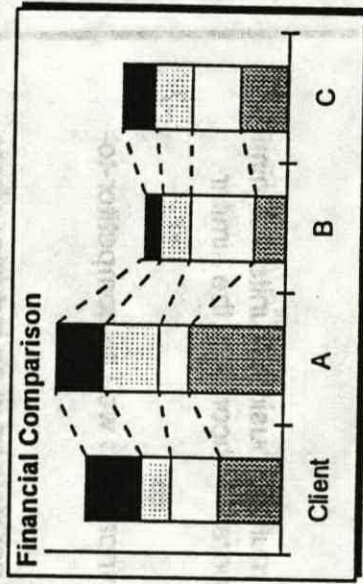
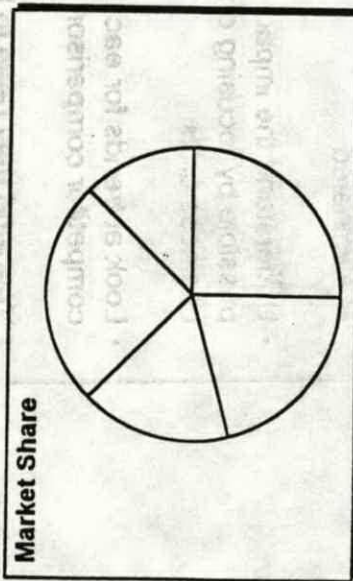


Company Financials

Understand Relative Competitive Position

At the most basic level, relative competitive position is depicted by market share and by comparison of performance metrics. These analyses should include both current data and trends.

BASIC COMPETITIVE ANALYSIS: MARKET SHARE/PERFORMANCE METRICS



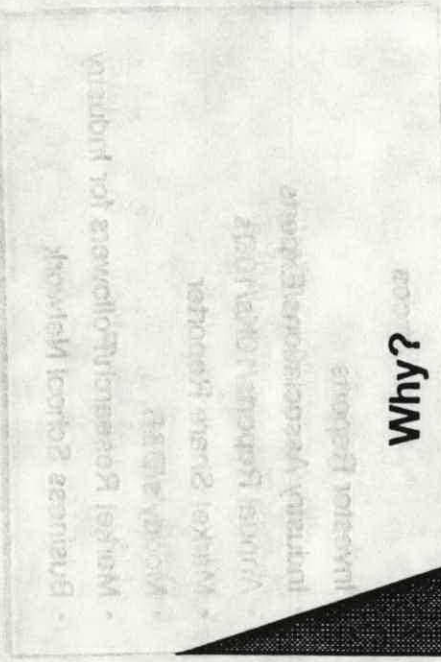
- Sources**
- Investor Reports
 - Industry Associations/Experts
 - Annual Reports/10Ks/10Qs
 - Market Share Reporter
 - Moody's/D&B
 - Market Research/Followers for Industry
 - Business School Network



It is important when doing financial comparisons to be measuring apples to apples. The effects of multiple businesses, different year-ends or relative size of companies may distort comparisons and should be accounted for or normalized in the analysis. And most importantly, develop hypotheses why the data is the way it is or why it is important.

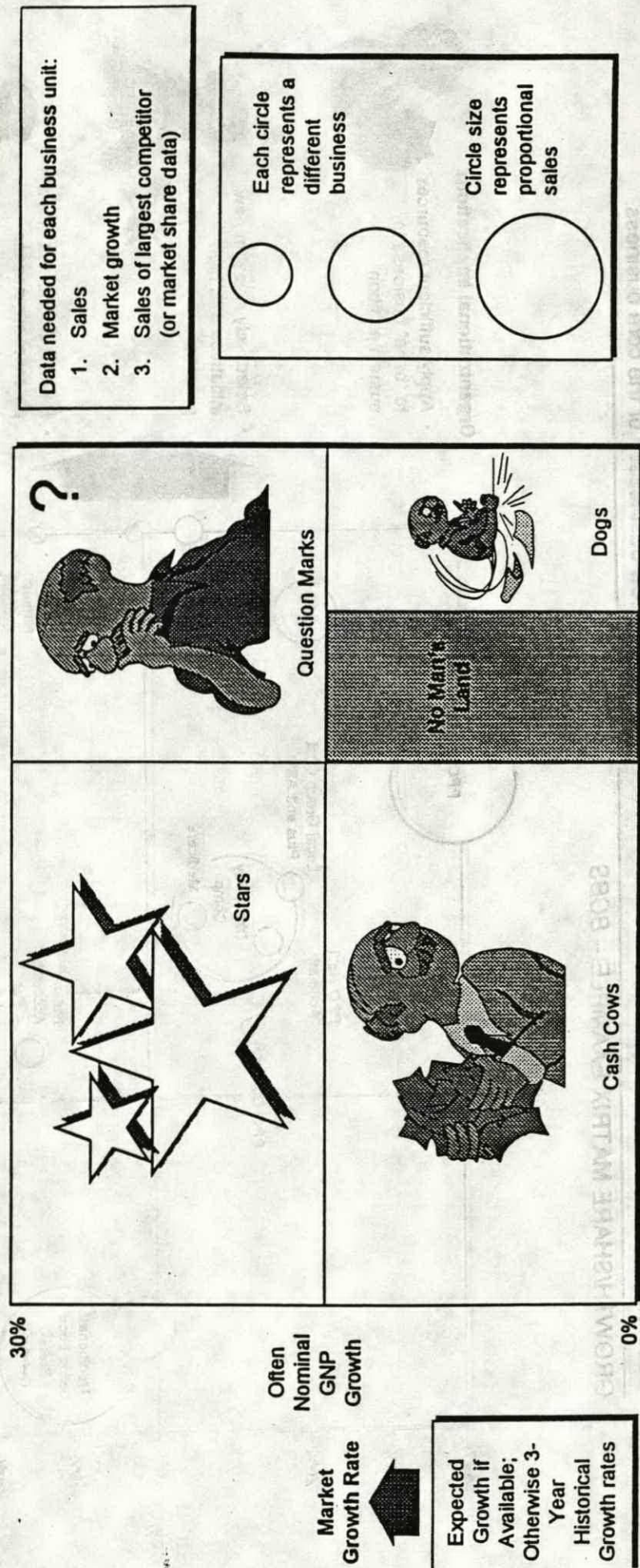
FINANCIAL/RATIO COMPARISONS CAVEATS

- Use % of sales or other ratios to be sure the effect of revenue is eliminated
- Understand the impact of multiple business units – minimize if possible by focusing on operating income of the similar business units
- Look at trends for each company as well as competitor-to-competitor comparison
- Year-end may need to be normalized in an industry where there has been a major change



The Growth/Share Matrix is an analytical tool used to examine a company's portfolio of businesses. The matrix depicts the company's cash flow position by plotting each business' relative market share (a proxy for cash generation ability) against industry growth (a proxy for cash requirements).

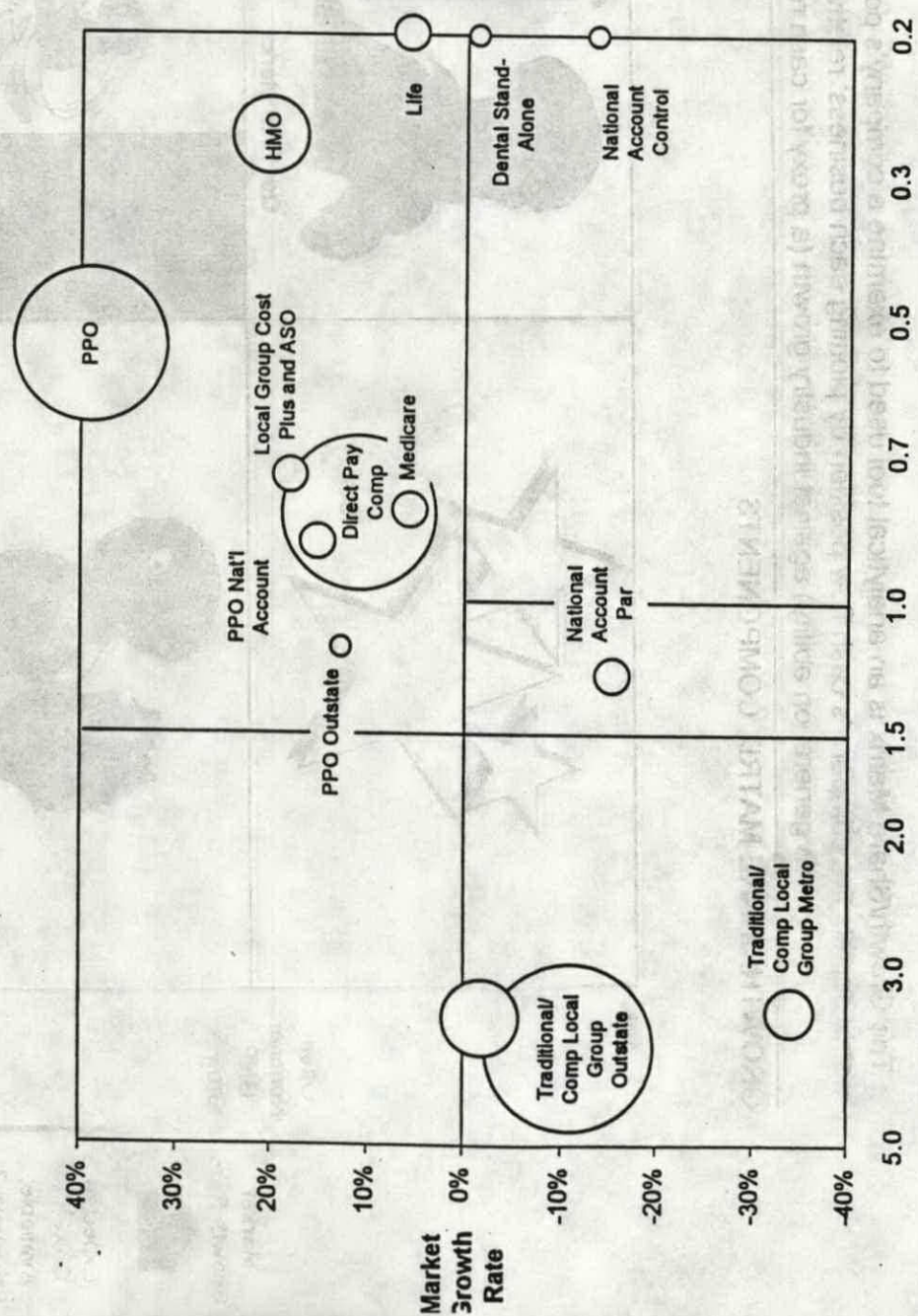
GROWTH/SHARE MATRIX COMPONENTS



Relative Market Share ← **Company's Sales or Share / Largest Competitors Sales or Share**

In this example, the information can be used to avoid management distraction in small, unprofitable businesses. The resources can then be better allocated to promoting new businesses or the core business.

GROWTH/SHARE MATRIX EXAMPLE - BCBS



Organizational Implications

- Apply sufficient resources to "base" business to sustain position
- Selectively invest in new initiatives with high potential
- Restrict investment in low potential businesses
- Avoid management distraction associated with multiple new business initiatives

Note: Circle size proportional to revenues

This tool and all consulting analytical techniques require you test and challenge your answers and hypotheses and avoid "cookbook" approaches.

GROWTH/SHARE MATRIX CAVEATS

Standard prescriptions and proxies for cash sources and users are overly simplistic—look beyond "cows" and "dogs"

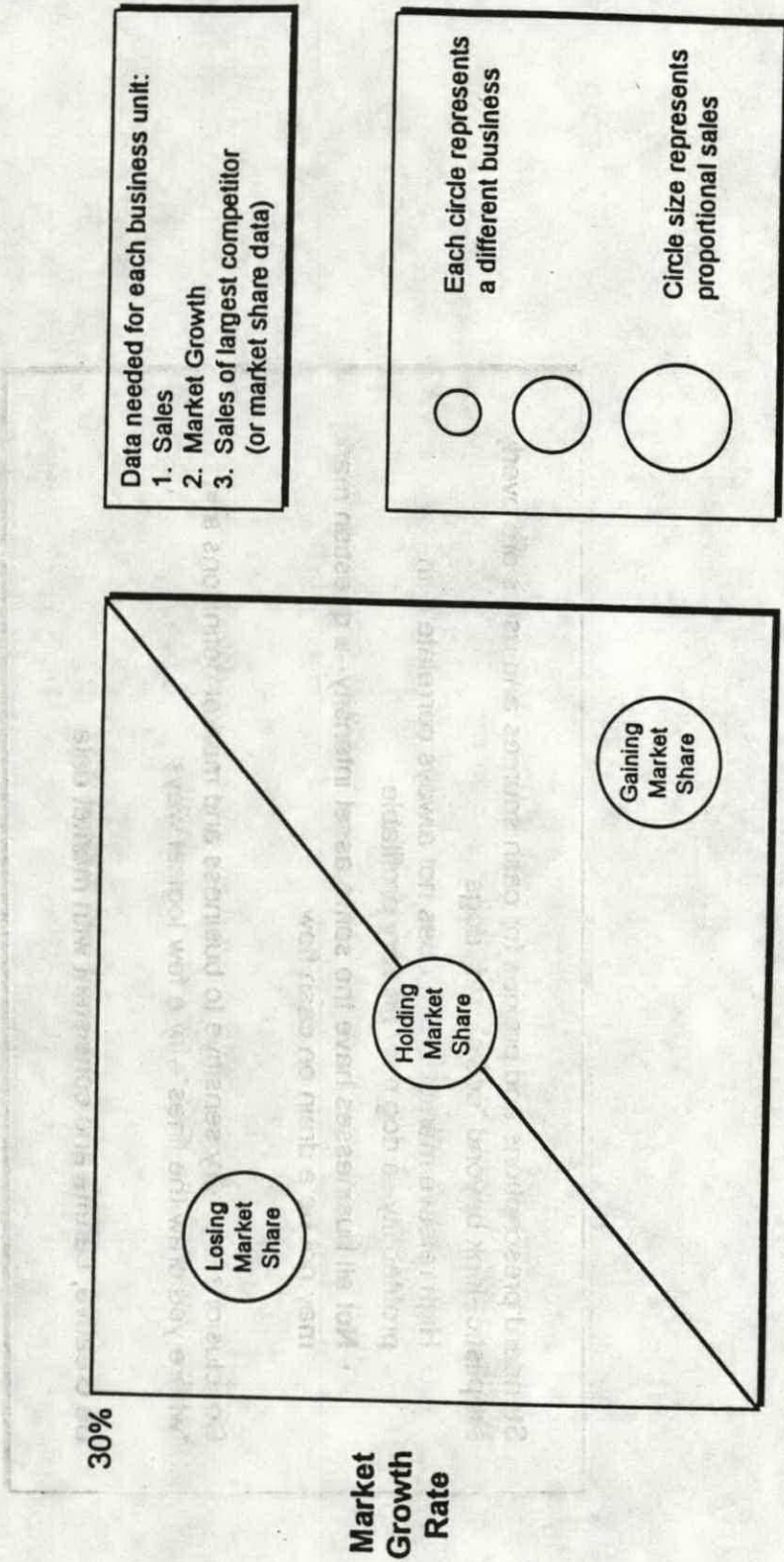
- High relative market share does not always correlate with profitability—a dog may be very profitable
- Not all businesses have the same asset intensity—a question mark may not be a drain on cash flow

Conclusions are very sensitive to business and market definitions and "where you draw the lines"—try a few logical ways

Be creative, careful and consistent with market data

It is useful to accompany the Growth/Share Matrix with a Growth/Growth Matrix, which shows those businesses that are gaining share and those that are losing share. This matrix will often suggest additional analyses, examining the strategy of those businesses losing share.

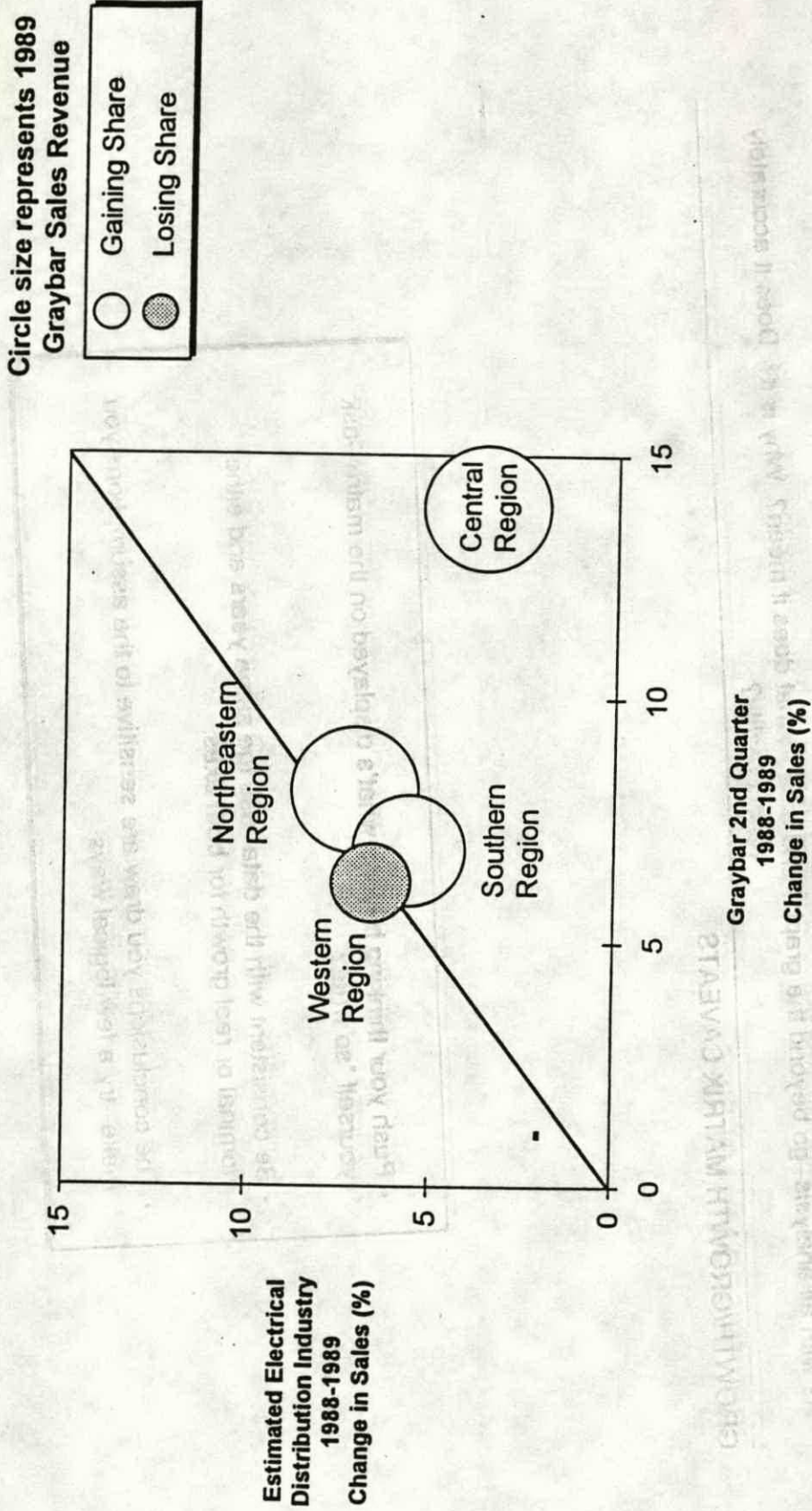
GROWTH/GROWTH MATRIX COMPONENTS



Use 3-year historical growth rates (use 5-year if business is highly cyclical)

Some additional analyses suggested by this example include analyzing why the central region is growing share and the west region is losing it. To find the answers to these questions it is best to start with hypotheses.

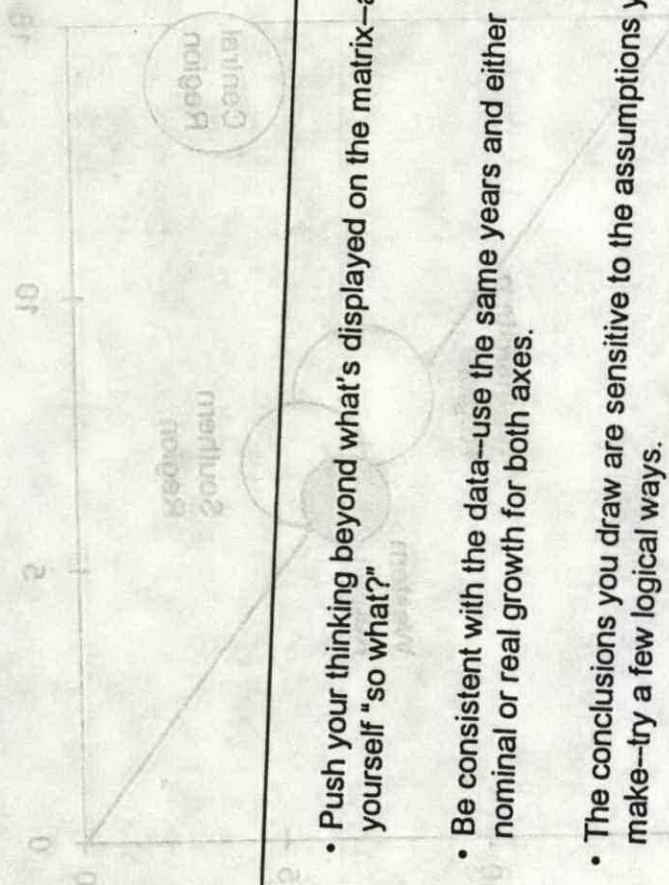
GROWTH/GROWTH MATRIX EXAMPLE - GRAYBAR REGIONS



Source: Electrical Distribution Magazine; Value Line; Graybar 1989 10Q; PW Analysis

As with all analysis—go beyond the graphs and data. What does it mean? Why is it? Does it accurately reflect reality?

GROWTH/GROWTH MATRIX CAVEATS

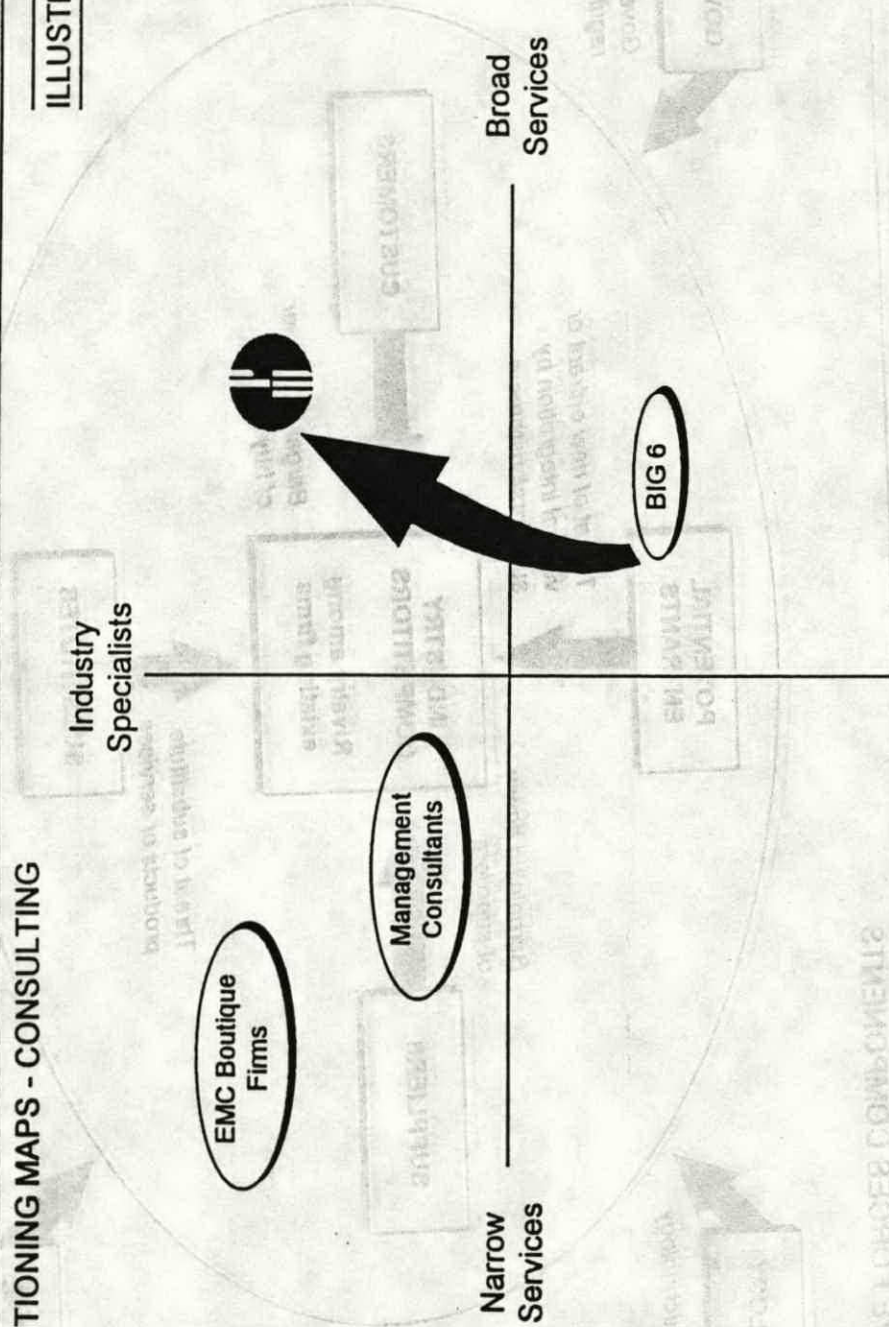


- Push your thinking beyond what's displayed on the matrix—ask yourself "so what?"
- Be consistent with the data—use the same years and either nominal or real growth for both axes.
- The conclusions you draw are sensitive to the assumptions you make—try a few logical ways.

Examples of some other frameworks you may use in a given situation include positioning maps. These are an effective way of showing a client that you understand their market and position. It can also be used to develop strategic recommendations.

POSITIONING MAPS - CONSULTING

ILLUSTRATIVE



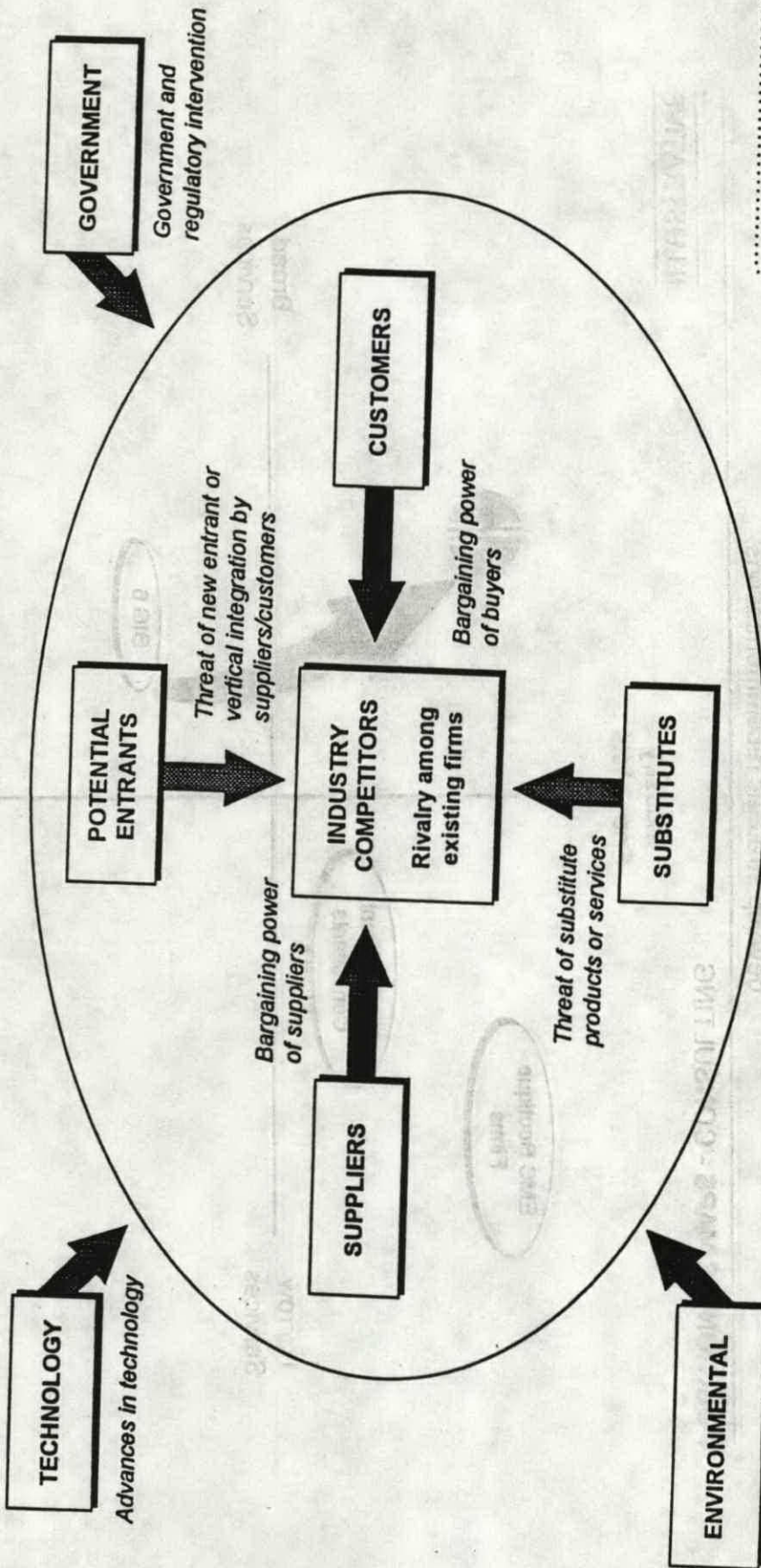
TO MAKE A POSITIONING MAP:

- (1) Choose axes that are relevant to customer decision-making (first) and those which differentiate suppliers (second)
- (2) Illustrate where competitors lie on map(s)
- (3) Interpret map for strategic implications (e.g., clusters or open spaces)

Understand Competitive Dynamics Shaping Industry

The five forces, or Porter model, allows us to evaluate the attractiveness of an industry in terms of the force affecting potential profitability and to specify competitive strategies.

FIVE FORCES COMPONENTS



Potential Data Sources:

Annual reports, 10Ks, Lit Searches, Interviews, Industry Analyses, Analysis' Reports, etc.

Again, the Porter model is not a cookbook. Try to pick out the key factors making this industry what it is or driving it into the future. Factors should be considered relative to other industries. Don't spend too much time worrying about into which box to put a point.

FIVE FORCES COMPONENTS

TECHNOLOGY

Technology advances are likely to be greater if:

- The product is newer
- The product is highly technical
- The manufacturing process is complex

POTENTIAL ENTRANTS

Entry barriers are high if there are:

- Economies of scale
- Product differentiation
- Capital requirements
- Limited access to distribution channels
- Restrictive government policies
- Potential retaliatory reaction of incumbents

GOVERNMENT

Government intervention is high if:

- There is a well-established regulatory body
- The industry is the subject of much legislation
- Customers have formed strong lobbies

SUPPLIERS

Bargaining power of suppliers is greater if:

- The supply industry is dominated by a few companies or is more concentrated than the buying industry
- The supply produce is differentiated or there are high switching costs
- There are few substitutes
- The buying industry is not an important customer of the supply industry
- The supply industry poses a credible threat of forward integration

INDUSTRY COMPETITORS

Rivalry is intense if:

- Competitors are numerous or roughly equal in power or size
- Industry growth is slow
- There are high fixed costs or the product is perishable
- The product lacks differentiation or switching costs
- Capacity is augmented in large increments
- Exit barriers are high
- Rivals are diverse in strategies, origins and "personalities"

CUSTOMERS

Bargaining power of customers is greater if:

- The customer group is concentrated or buys in large volume
- Products purchased are undifferentiated
- Products purchased represent a significant portion of the customer's costs
- Customer earns low profits, creating incentive to lower purchasing costs
- The product purchased is unimportant to the quality of the customer's product
- Switching costs are low
- Customer group poses a credible threat of backward integration

SUBSTITUTES

Threat of substitutes is high if:

- There is an abundance of products or services that serve the same function
- The price-performance tradeoff of substitutes is attractive

ENVIRONMENTAL

Environmental concerns are higher if:

- Products or by-products are not perishable
- The product is controversial
- The product is faddish



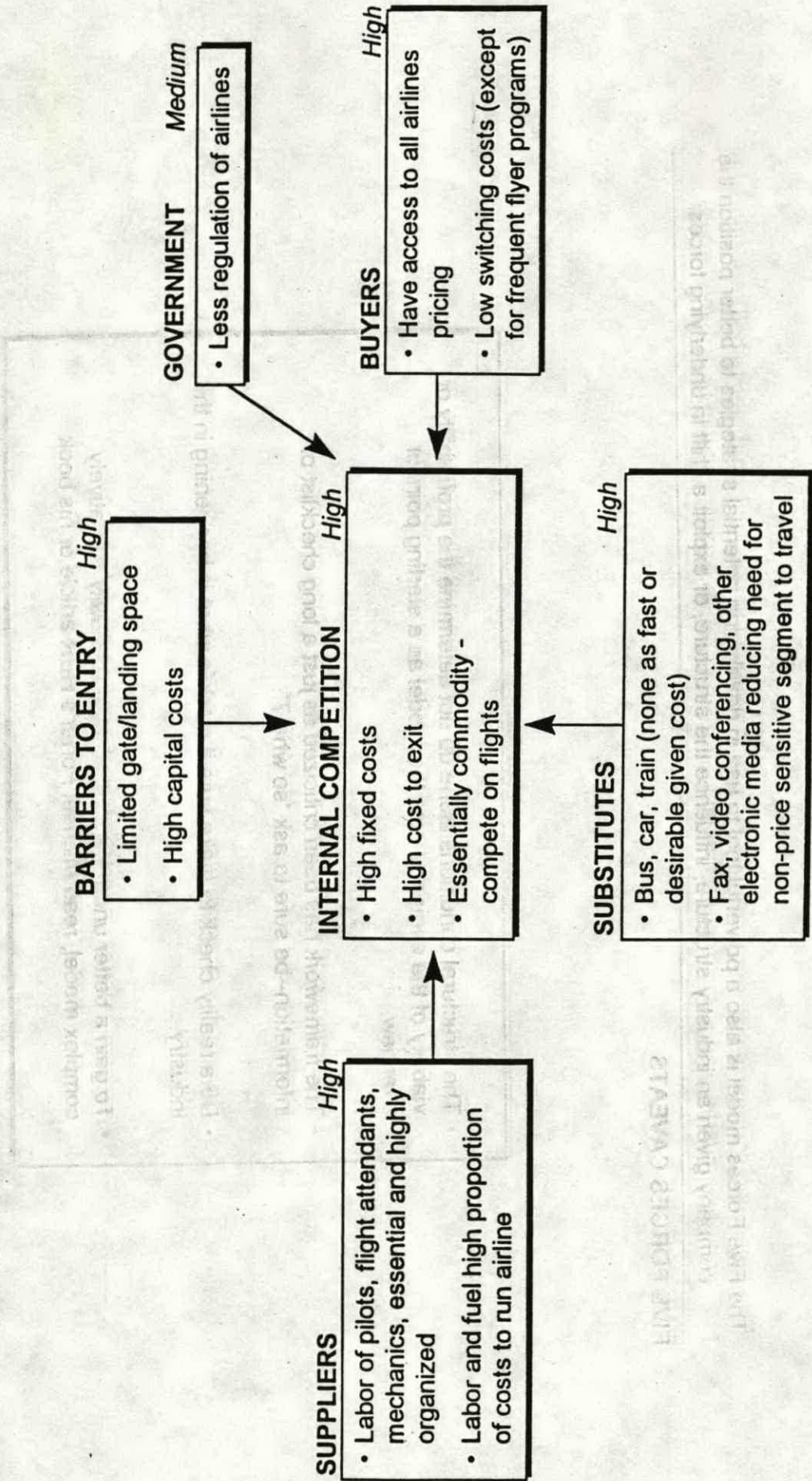
Industry attractiveness is dynamic and needs to be continuously reevaluated based on new developments in any of these key factors. These factors are fairly subjective and depend upon your point of view as well.

INDUSTRY ATTRACTIVENESS

- The industry is attractive (from the company's point of view) if:*
- The threat of new entrants is low
 - The threat of substitutes is low
 - The bargaining power of buyers is low
 - The bargaining power of suppliers is low
 - The rivalry among competitors is low
 - Government intervention is low
 - Environmental concerns are low
 - Technology advances are limited

If you look at the simplified airline five forces, for example, you can see why the industry attractiveness (in terms of profitability) is suspect and why the frequent flier programs evolved as a strategy to develop customer loyalty (away from a commodity business).

A SIMPLE MODEL - AIRLINES



The Five Forces model is also a powerful tool to use in developing potential strategies to better position the company given an industry structure, influence the structure, or exploit a shift in underlying forces.

FIVE FORCES CAVEATS

- The structural conditions alone do not determine the profitability or viability of the company—use the model as a starting point or overview.
- The framework has been criticized as just a long checklist of information—be sure to ask “so what?”.
- Do a reality check to make sure it models what is happening in the industry.
- To gain a better understanding of what's actually a relatively complex model, read Michael Porter's HBR article or his book.

Another framework is the industry attractiveness/business strengths matrix. To develop an industry attractiveness assessment and compare it to a particular company's strengths you can use your research to develop a matrix. Ultimately this can be used to plot where a company should either focus or divest its energies.

INDUSTRY ATTRACTIVENESS/BUSINESS STRENGTHS

	ATTRACTIVENESS OF YOUR INDUSTRY	STRENGTH OF YOUR BUSINESS
MARKET FACTORS	<ul style="list-style-type: none"> • Size (dollar, units, or both) • Size of key elements • Growth rate per year <ul style="list-style-type: none"> - Total - Segments • Diversity of market • Sensitivity to price, service, features and external factors • Cyclicalilty • Seasonality • Captive customers 	<ul style="list-style-type: none"> • Share (in equivalent terms) • Share of key segments • Your annual growth rate: <ul style="list-style-type: none"> - Total - Segments • Your participation • Your influence on the market • Your sales lag or lead • Extent to which your sales are captive
COMPETITIVE FACTORS	<ul style="list-style-type: none"> • Types of competitors • Degrees of concentration • Changes in type and mix • Entries and exits • Position changes in share • Functional substitution • Degrees and types of integration 	<ul style="list-style-type: none"> • Where you fit, how you compare • Segments you have entered or left • Your relative share change • Your vulnerability • Your own level of integration
FINANCIAL & ECONOMIC FACTORS	<ul style="list-style-type: none"> • Profitability <ul style="list-style-type: none"> - Ratios - Dollars • Contribution margins • Leverage factors such as economies of scale • Barriers to entry or exit (both financial and non-financial) • Capacity utilization 	<ul style="list-style-type: none"> • Your Profitability <ul style="list-style-type: none"> - Ratios - Dollars • Your contributed value • Any competitive advantage you possess • Problems you would have in entering or exiting • Your utilization



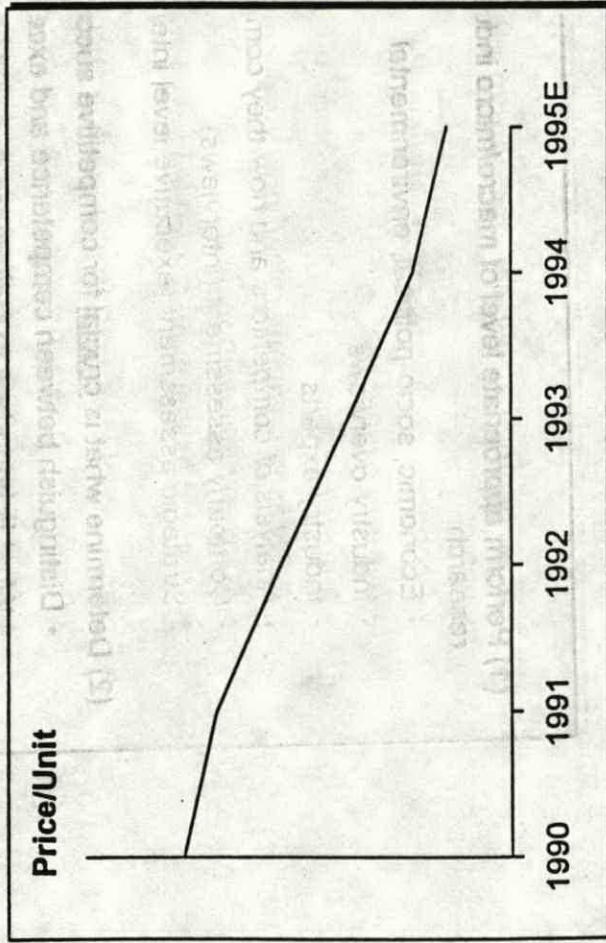
INDUSTRY ATTRACTIVENESS/BUSINESS STRENGTHS (CONT'D)

	ATTRACTIVENESS OF YOUR INDUSTRY	STRENGTH OF YOUR BUSINESS
<p>TECHNOLOGICAL FACTORS</p> <ul style="list-style-type: none"> • Maturity and volatility • Complexity • Differentiation • Patents and copyrights • Technology required • Process of manufacturing 	<ul style="list-style-type: none"> • Your company's responsiveness and flexibility • Your company's ability to cope • Your company's aggressiveness • Your company's relationships 	
<p>SOCIO-POLITICAL FACTORS</p>	<ul style="list-style-type: none"> • Social attitudes and trends • Laws and government agency regulations • Influence with pressure groups and government representatives • Human factors such as unionization and community acceptance 	

When analyzing industry dynamics, you should look for the key drivers of the industry and analyze any relevant trends. Again the emphasis is on the "so what."

TREND ANALYSIS

ILLUSTRATIVE



In the disk drive industry, for example, this was a key factor driving change and ability to compete. Our client was competing on technology while others focused on price (what the customer actually wanted)

OTHER KEY TRENDS

- Technology
- Lead Times
- Consumers

Critical success factors are identified by analyzing much of the same data sources for what is critical to the competitive advantage of a company. Generally, this will include factors which are important to the customer or profitability.

CRITICAL SUCCESS FACTORS

(1) Perform appropriate level of macro/micro industry and competitive research

- Economic, socio-political, environmental
- Industry overviews
- Industry experts
- Analysis of competitors and how they compete
- Company assessment (interviews)
- Strategic assessment (executive level interviews)

(2) Determine what is crucial for competitive success

- Distinguish between competence and excellence
- What is important to customers and profitability
- For a given company-develop around stated strategy

So What?

When you have completed your analysis, you will have developed interim "so whats." We will generally pull those together into overall issues or hypotheses.

ISSUES/HYPOTHESES

ISSUE

- Company XYZ has been losing market share steadily to company ABC in widgets
- Company XYZ can no longer compete effectively with ABC because of low economies of scale
- Widgets are not a core competency and are not synergistic with other XYZ product lines
- Widgets are a slow growth industry

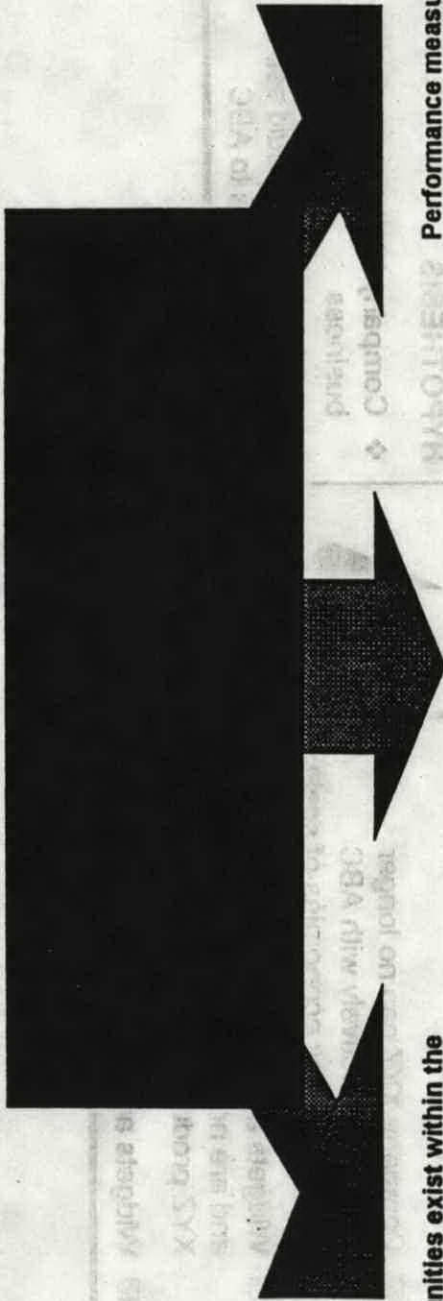


HYPOTHESIS

- ❖ Company XYZ should exit the business
- ❖ Company XYZ should sell the widget business to ABC

Your issues and hypotheses should drive any presentation of your analysis. You will be hearing a lot of the pyramid principle later in this and other sessions.

EXAMPLE OF PYRAMID TO STRUCTURE DOCUMENT



Quick hit opportunities exist within the sales administration process

- Eliminate logging, handing-off and checking
- Improve training
- Move configuration and editing to front end of process
- Automate/eliminate redundant data entry tasks
- Make proposal a signable contract (combine steps)
- Combine lab release and upload process
- Improve cross-training
- Eliminate regionalization
- Modify AS400 to handle state idiosyncrasies and multiple scenarios

Policies throughout the organization should be re-engineered along with sales administration

- Institute draw system or commission based on bookings to alleviate month-end push
- Improve selling techniques to include better upfront qualification of customer and opportunity by sales rep (lap top)
- Simplify commission structure
- Formalize communications between groups
- Focus on satisfying customer not meeting monthly revenue targets

Performance measures, empowerment, accountability, and feedback must be put in place throughout the organization to measure profit, and accuracy as well as revenue

- Measure accuracy within the sales administration process
 - error rates
 - cycle time
- Sales reps commissioned on profit as well as revenue
- Proposal hit rate/revision rate
- Develop customer satisfaction measures
 - on-time shipments
 - complete/accurate shipments
- Give-away dollars

The two most important things in presenting your analysis is to make sure it is easy to comprehend (i.e., use of pictures and graphs) and to incorporate into a document (follow format of ultimate use document). Also, put in some value-added analysis (i.e., what does the graph mean? so what?).

PRESENTING YOUR ANALYSIS

- Use pyramid principle
- Use landscape/storyline format
- Use graphical data when possible
- Develop a "so-what" for the storyline
- Shade a client or segments/data to call attention to it
- Show trends using growth rates

And, finally, make sure the document answers the original question. Who is this company? What are their issues? How can we potentially help them? Things not relevant to the original question should not be included in the final presentation.

ANALYSIS PREPARATION CAVEATS

Do not include extraneous "fun facts" not relevant to the key issues, hypotheses or analysis

Make sure storylines flow from page to page and section to section

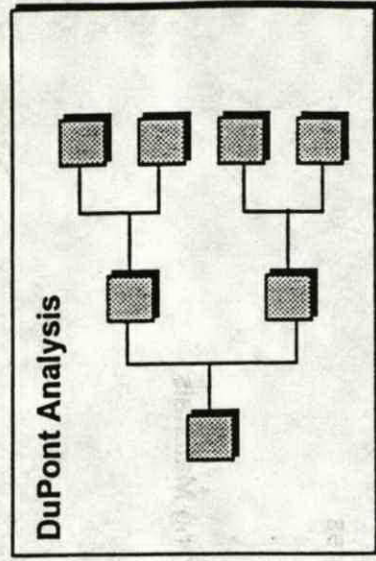
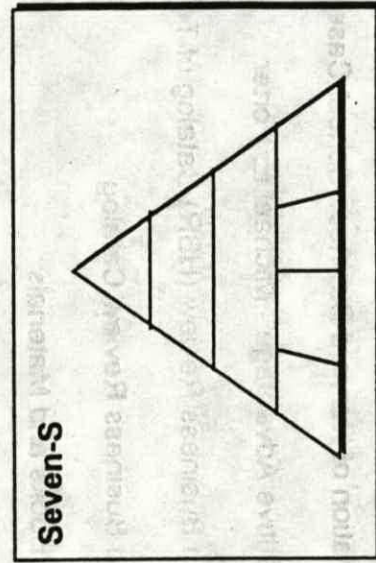
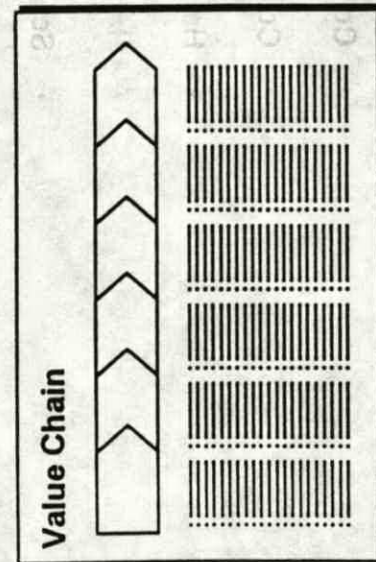
Be sure to include value-added analysis not just a regurgitation of your research

Summary

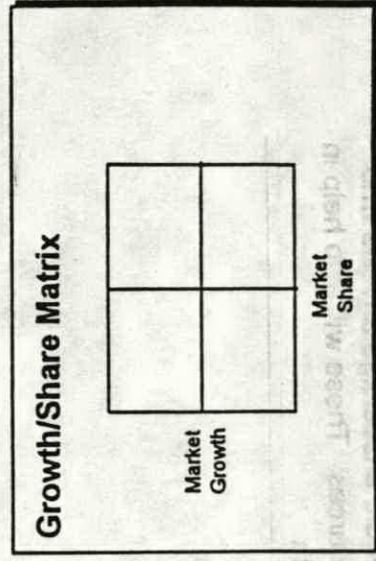
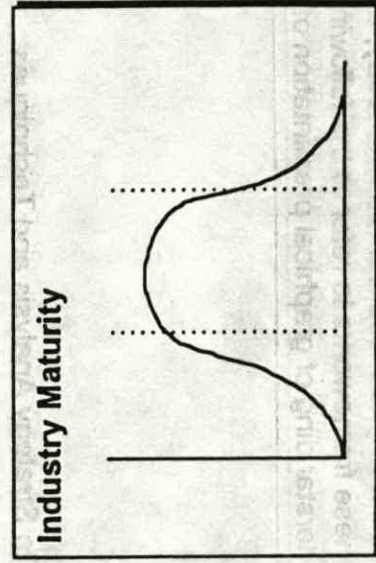
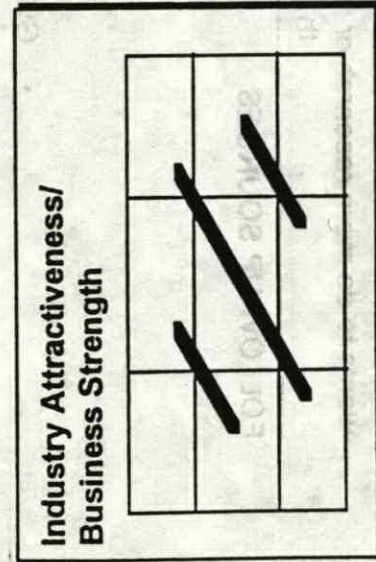
Although we have discussed some of the more frequently used frameworks, the list has been in no way exhaustive. Depending on the company, industry, study, or issue, other frameworks may be useful as well.

TYPES OF FRAMEWORKS/ANALYSIS

PARTIAL LIST



← *Distillation of Business Processes, Capabilities and Financials* →



← *Where to Compete; How to Compete* →

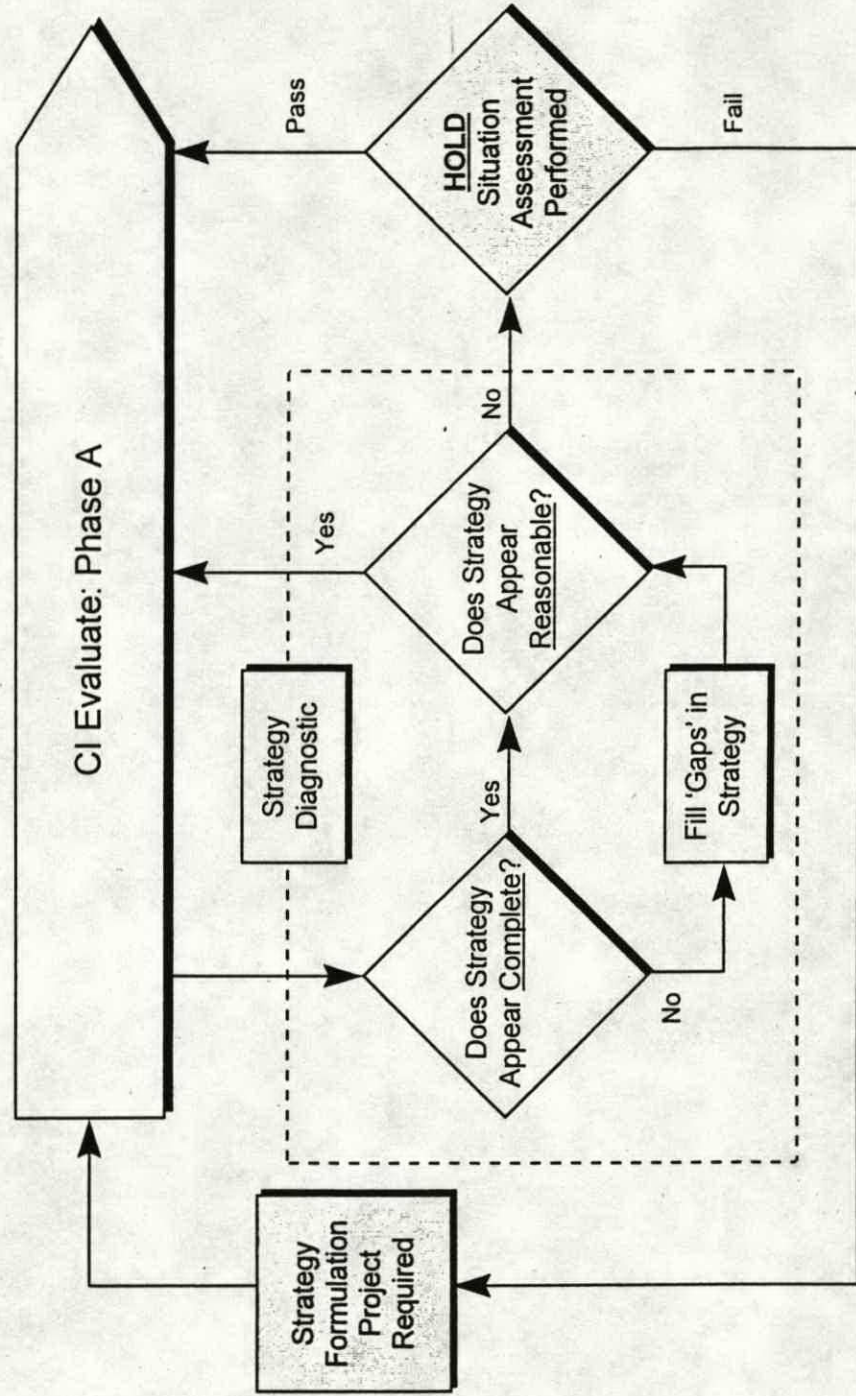
While we do not have time to go into many of these frameworks today, we would encourage anyone who wants to do more research or use these frameworks to refer to the following sources. These will also help in the understanding of graphical presentation of data.

FOLLOW-UP SOURCES

- Guide to Strategy Analysis and Techniques
- Understanding the Competition, A Practical Guide to Competitive Analysis
- Compilation of Harvard Business School Case Notes
- Competitive Advantage - Michael E. Porter
- Harvard Business Review (HBR) Catalog of Teaching Materials
- Harvard Business Review Catalog
- School Books and Materials
- Other "Expert" Areas Within Price Waterhouse

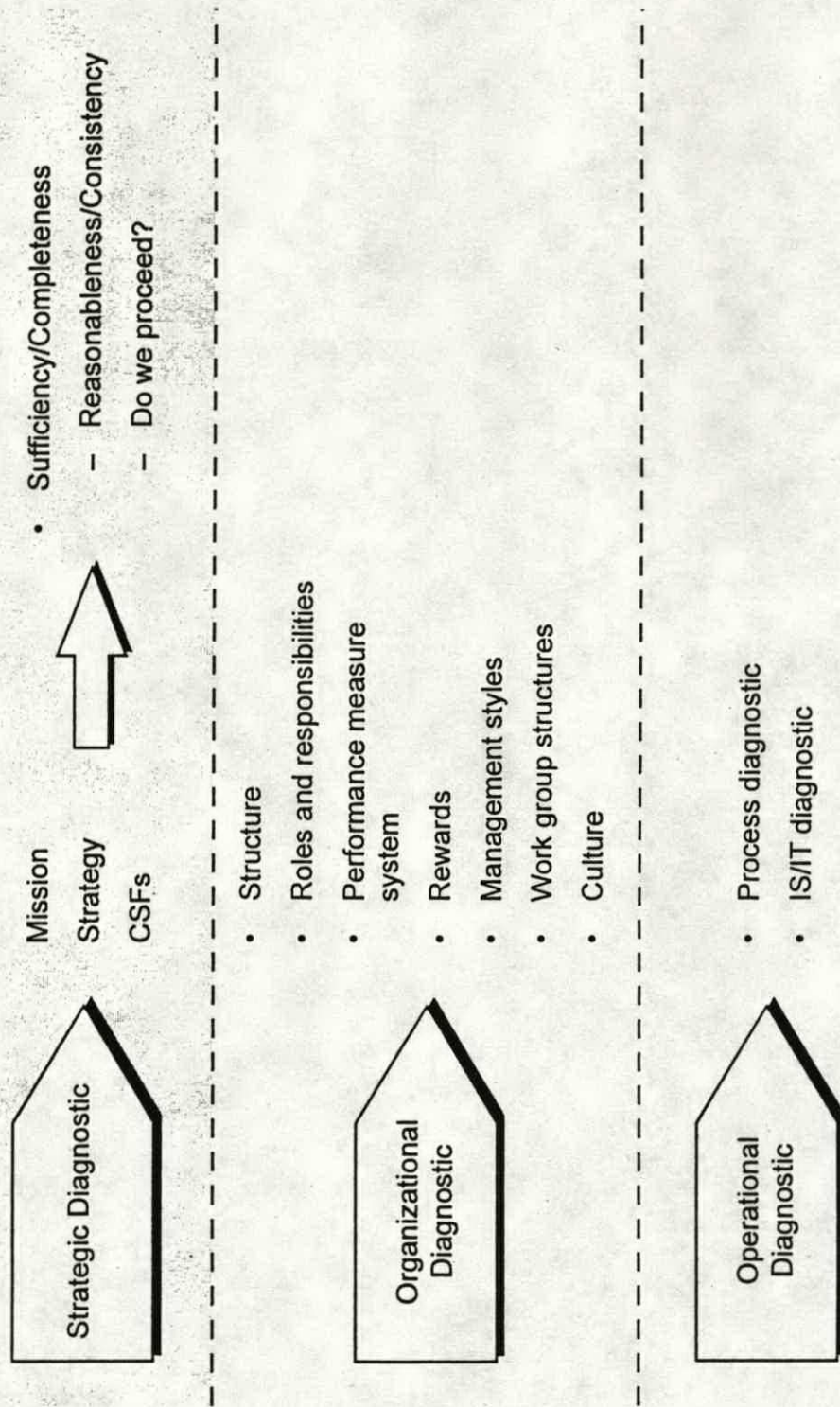
The strategy diagnostic is a tool used prior to the start of a CI engagement, to evaluate whether or not the company's strategy is complete and reasonable enough for the CI project to begin.

THE STRATEGY DIAGNOSTIC



The strategy diagnostic is one of three diagnostic tools available to CI practitioners through the CI methodology.

BUILD CASE FOR CHANGE: CONDUCT DIAGNOSTICS



Through documenting and evaluating the company's strategy at the start of a CI project, the team can determine whether the strategy is complete enough to support the start of a full CI project. The first step is to document each piece of missing strategy and CSFs, using the guidelines developed.

PERFORMING THE STRATEGY DIAGNOSTIC

- Document the strategy using the framework
- Test sufficiency and reasonableness of strategy
 - Sufficiency based on *completeness* of strategy
 - Reasonableness based on *consistency* and *performance*
- Determine whether to proceed with Evaluate Stage of change project

Strategy Documentation Framework

Mission Characterization
<ul style="list-style-type: none"> • Enterprise objectives and targets • Industry participation and competitive strengths

Strategy Characterization
<ul style="list-style-type: none"> • Detailed description of market selection (where enterprise competes) • Detailed description of market approach (how enterprise competes)

Strategy Implementation Plan
<ul style="list-style-type: none"> • Detailed action plan with resource requirements • Detailed performance targets

Critical Success Factors
<ul style="list-style-type: none"> • CSFs identify those few things which must be done well for the organization's performance targets to be met

To test the sufficiency of the strategy, gaps should be identified in the mission, strategy, CSFs or implementation plan and filled where possible.

TESTING STRATEGY SUFFICIENCY

Identify gaps and, where possible, gather additional information to fill them

- missing elements of strategy documentation
- details on where and how to compete
- completeness of CSFs

Gaps which cannot be filled may result in a change of scope

Testing for consistency involves checking the company's plan and actions against known industry trends, forecasts and competitive environment to ensure that the company's approach is reasonable within the context of the industry in which it competes.

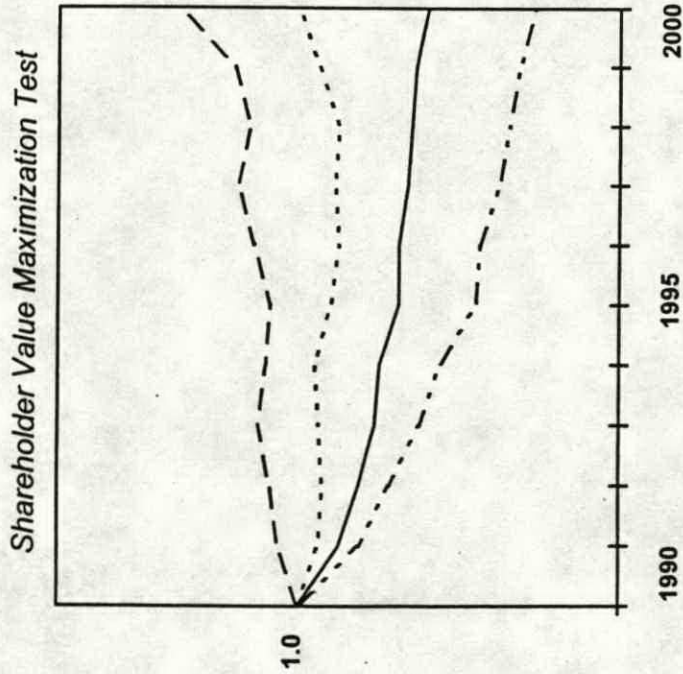
TESTING STRATEGY REASONABLENESS

- Consistency of Strategy
- Check internal, vertical consistency, e.g. do business unit strategies support overall strategy
- Check consistency of management's actions with stated strategy
- Check consistency of strategy assumptions with current market reality and forecasts, and implementation requirements
- Check consistency of strategy with likely impact of change drivers

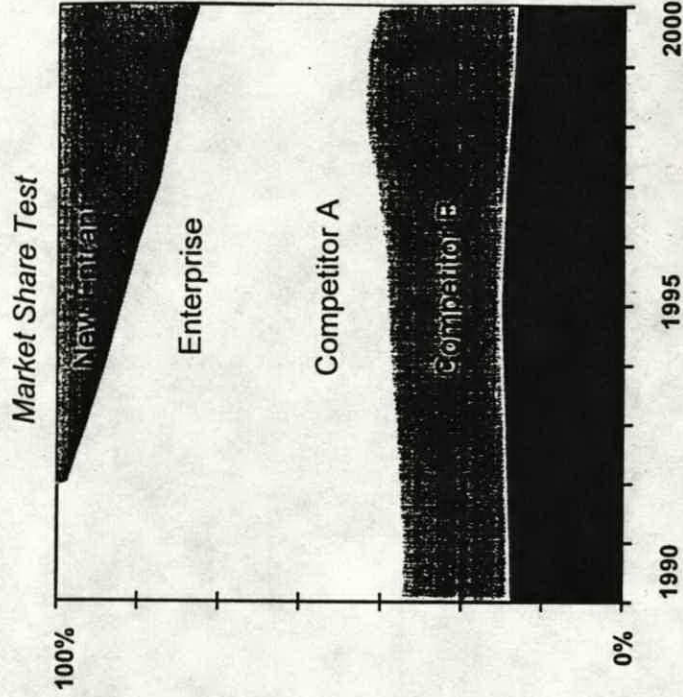
Testing a strategy's reasonableness should include evaluating its performance to date.

TESTING STRATEGY REASONABLENESS

Performance of Strategy - Possible Tests:



- Has the strategy created shareholder value?
- Is the strategy expected to create shareholder value in the future?

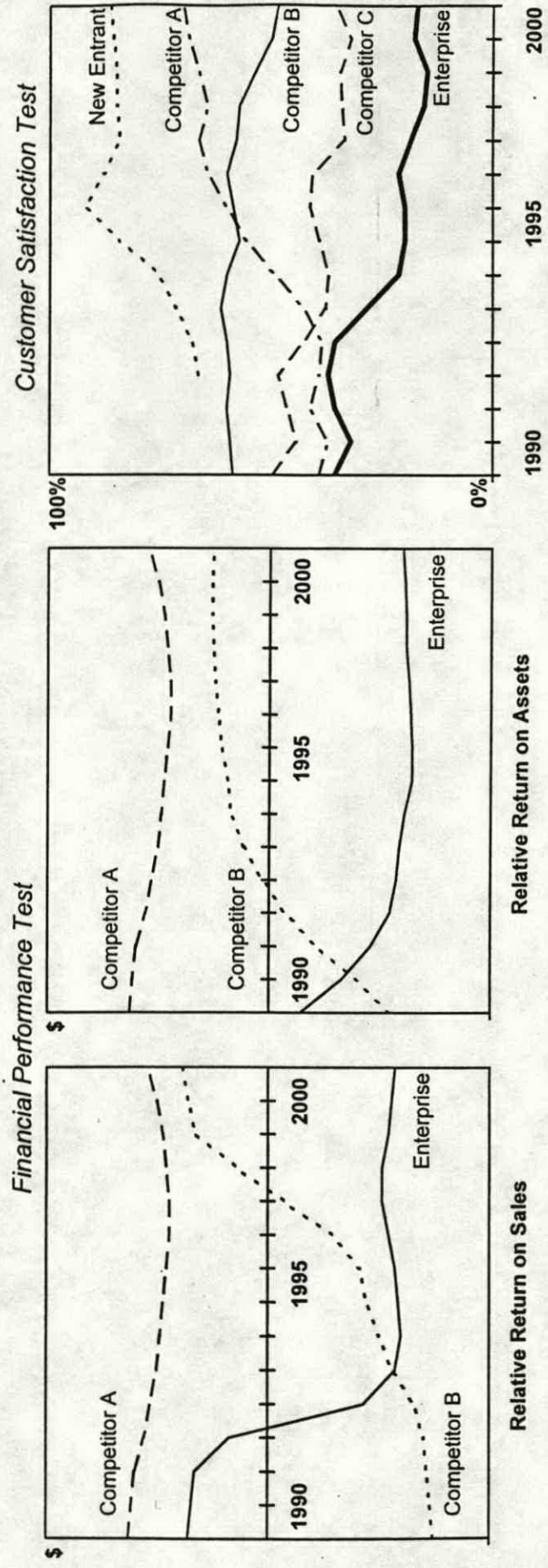


- Has the strategy resulted in the achievement of market share objectives?
- Is it likely to achieve market share objectives in the future?

A series of financial and operational tests can be used to test the reasonableness of a strategy.

TESTING STRATEGY REASONABLENESS

Performance of Strategy - Possible Tests:



- Has the strategy resulted in the achievement of financial objectives (both internal and external, e.g. analyst forecasts)?
- Is it likely to achieve financial objectives in the future?

- Have customers been satisfied with our products/services in the past?
- Can we meet customer satisfaction objectives in the future?