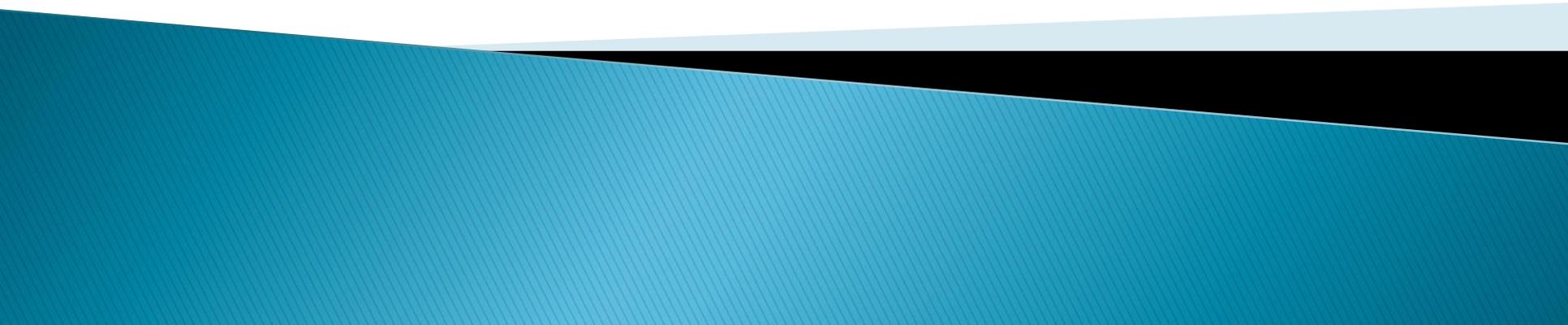


Unit 12: Strategic Planning

Dwayne Cargill
Colbourne College

January 12, 2015



Content

- ▶ Learning Objectives:
 - ▶ Ac. 2 Be able to review existing business plans and strategies of an organisation:
 - 2.1 use appropriate tools to analyse the effects of current business plans
 - ▶ Assessment Criteria
 - ▶ References
- 

Analysing a Business Plan

- ▶ Analysing a business plan correctly can make an entrepreneur, or save an investor, millions of dollars. According to Marzec (2016) good business plans provide a thorough and logical breakdown of how a business makes money by delivering goods or services to customers and taking payment.
 - ▶ They are designed to answer the question: Can this business work under real-world conditions?
- 

Business Plan

▶ Significance

- The most common reasons to perform a business plan analysis are to determine whether the business is a good investment or lending risk, or even whether to pursue the business. Investors need to know how much risk the business represents, financially and operationally.
- Lenders need to ensure that the business has sound financial planning and a stable income. Entrepreneurs may find that writing the business plan allows them to view the venture more objectively.

▶ Function

- A thorough business plan should describe the business finances, history, operations, competition and customers.
- The plan must persuade readers that a specific set of customers has a specific problem, then describe exactly how the business solves that problem better than the competition.
- If the plan calls for investment or lending, it must also convince investors that the business managers and key employees are up to the task.
- A good plan must also specify how the investor will recover her money once the investment is mature.

Considerations and Features

- ▶ Successful businesses have ambitious goals but realistic expectations of the time and resources necessary to meet those goals. Each section of the plan should demonstrate the business owner's knowledge of his customers and industry. That industry and customer base must be growing; it is better to demonstrate that the business can realistically capture a tiny piece of a growing market than a large piece of a stagnant or declining one.
- ▶ **Features:**
 - Document how the company makes and provides its goods or services
 - Suppliers of the business' materials are described in terms of their reliability, costs and relationship with the business
 - Plans for service businesses include a flowchart for how the service is provided.
 - Payment methods,

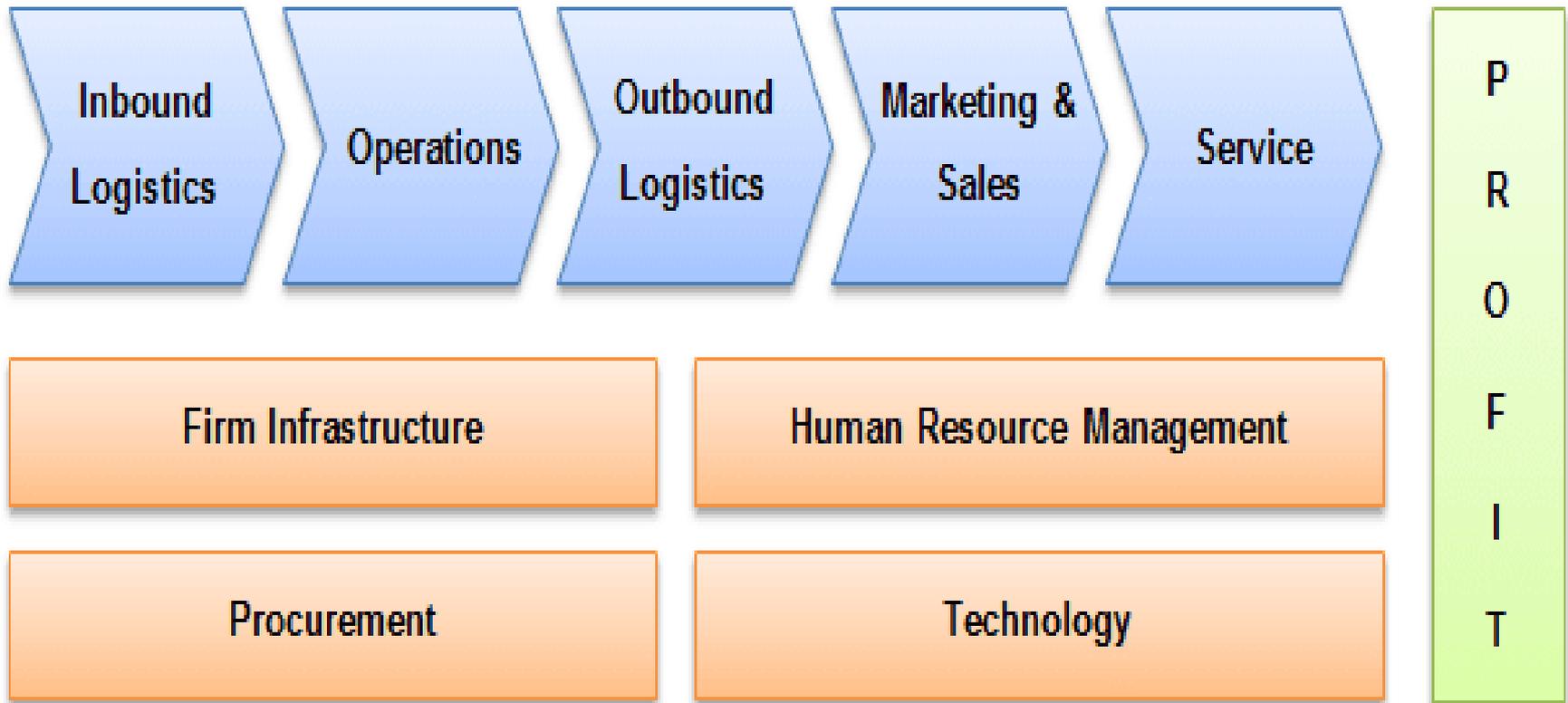
VALUE CHAIN ANALYSIS

- ▶ Value chain represents the internal activities a firm engages in when transforming inputs into outputs (Jurevicius, 2013).
- ▶ Value chain analysis (VCA) is a process where a firm identifies its primary and support activities that add value to its final product and then analyse these activities to reduce costs or increase differentiation (Jurevicius, 2013).
- ▶ VCA is a strategy tool used to analyze internal firm activities. Its goal is to recognize, which activities are the most valuable (i.e. are the source of cost or differentiation advantage) to the firm and which ones could be improved to provide competitive advantage. In other words, by looking into internal activities, the analysis reveals where a firm's competitive advantages or disadvantages are.

The Model

- ▶ The firm that competes through differentiation advantage will try to perform its activities better than competitors would do. If it competes through cost advantage, it will try to perform internal activities at lower costs than competitors would do.
- ▶ When a company is capable of producing goods at lower costs than the market price or to provide superior products, it earns profits.
- ▶ According to netmba.com (2016) the vcm is a useful analysis tool for defining a firm's core competences and the activities in which it can pursue a competitive advantage as follow:
 - Cost advantage; By better understanding costs and squeezing them out of the value-adding activities
 - Differentiation: by focusing on those activities associated with core competencies and capabilities in order to perform better than do competitors.

Porter Value Chain Model



Source: <http://www.strategicmanagementinsight.com/tools/value-chain-analysis.html>

Competitive Advantage Types

Cost Advantage

This approach is used when organizations try to compete on costs and want to understand the sources of their cost advantage or disadvantage and what factors drive those costs.

- **Step 1.** Identify the firm's primary and support activities.
- **Step 2.** Establish the relative importance of each activity in the total cost of the product.
- **Step 3.** Identify cost drivers for each activity.
- **Step 4.** Identify links between activities.
- **Step 5.** Identify opportunities for reducing costs.

Differential Advantage

The firms that strive to create superior products or services use differentiation advantage approach.

- **Step 1.** Identify the customers' value-creating activities.
- **Step 2.** Evaluate the differentiation strategies for improving customer value.
- **Step 3.** Identify the best sustainable differentiation.

PORTER'S FIVE FORCES MODEL

- ▶ Porter's five forces model is an analysis tool that uses five industry forces to determine the intensity of competition in an industry and its profitability level (Porter 2008) cited in (Jurevicius, 2013)
- ▶ The five forces govern the profit structure of an industry by determining how the economic value it creates is apportioned. That value may be drained away through five forces (Porter, 2008):
 - the rivalry among existing competitors,
 - bargained away through the power of suppliers
 - bargained away through or the power of customers or be
 - constrained by the threat of new entrants or
 - constrained by the threat of substitutes.

Defence against the Forces

Attractive Industry – High profits



- High barriers to enter
- Weak suppliers bargaining power
- Weak buyers bargaining power
- Few substitute products or services
- Low competition

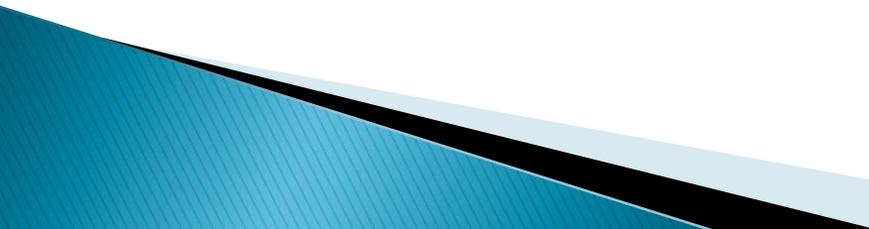
Unattractive Industry – Low profits



- Low barriers to enter
- Strong suppliers bargaining power
- Strong buyers bargaining power
- Many substitute products or services
- Intense competition

- ▶ Strategy can be viewed as building defenses against the competitive forces or as finding a position in an industry where the forces are weaker (Porter, 2008).
- ▶ Changes in the strength of the forces signal changes in the competitive landscape critical to ongoing strategy formulation.

Steps in Using the Tools

- ▶ We now understand that Porter's five forces framework is used to analyse industry's competitive forces and to shape organization's strategy according to the results of the analysis. But how to use this tool? We have identified the following steps:
 1. Step 1. Gather the information on each of the five forces
 2. Step 2. Analyse the results and display them on a diagram
 3. Step 3. Formulate strategies based on the conclusions
- 

Boston Growth Matrix

- ▶ The BGC Growth-Share Matrix is a portfolio planning model developed by Bruce Henderson of the Boston Consulting Group in the early 1970's. It is based on the observation that a company's business units can be classified into four categories based on the contributions of market growth and market share relative to the largest competitor, hence the name "growth-share". Market growth serves as a proxy for industry attractiveness, and relative market share serves as a proxy for competitive advantage.
- ▶ This framework assumes that an increase in relative market share will result in an increase in the generation of cash.

Understanding the Tool



Source: <http://www.strategicmanagementinsight.com/tools/bcg-matrix-growth-share.html>

Assessment Criteria

- ▶ To Be Discussed in Class for Consensus and Agreement.

Further Reading

- ▶ <http://www.makingit.tv.com/AnalyzingyourBusinessPlan.htm>
- ▶ <http://www.strategicmanagementinsight.com/tools/value-chain-analysis.html>
- ▶ <http://www.netmba.com/strategy/value-chain/>
- ▶ <http://www.strategicmanagementinsight.com/tools/porters-five-forces.html>

References

- ▶ Jurevicius, Ovidijus (2013) “Value Chain Analysis”
<http://www.strategicmanagementinsight.com/tools/value-chain-analysis.html>
- ▶ --- (2013) Porter’s Five Forces retrieved from
<http://www.strategicmanagementinsight.com/tools/porters-five-forces.html>
- ▶ Marzec, Angeline Business Plan Analysis retrieved on January 7, 2016 from <http://smallbusiness.chron.com/business-plan-analysis-1086.html>
- ▶ Netmba.com (2016) “The Value Chain” retrieved from <http://www.netmba.com/strategy/value-chain/>
- ▶ Porter, Micheal (2008) The Five Competitive Forces that Sharpe Strategy retrieved from <https://hbr.org/2008/01/the-five-competitive-forces-that-shape-strategy/>
- ▶ Dummies.com (2016) How to Determine Your Business’ Market Position retrieved from <http://www.dummies.com/how-to/content/how-to-determine-your-businesss-market-position.html>

Online Resources

- ▶ [The Essential Guide to SWOT Analysis](#) from Jackson Hille, content associate for FormSwift, a SF-based startup that helps organizations, entrepreneurs, and businesses go paperless.
 - ▶ [Quality Guide: SWOT Analysis](#) is a helpful guide from Management Sciences for Health and United Nations Children's Fund.
 - ▶ [Mind Tools: SWOT Analysis](#) provides a quick overview of SWOT
- 