By Paul J. Emello

Business Strategy Development—Let's Look Inside

Let's recap where we are in the business strategy development process. If you have been diligently following this series of articles, at this point you will have defined your mission, established strategic goals, and conducted an external environmental analysis. However, an external environmental analysis cannot stand on its own; it must be accompanied by an internal analysis. So, you guessed it, this month I am focusing on the components of an internal analysis (also known as a self analysis or company profile).

An internal analysis is a critical part of the foundation on which you will build your business strategy. An internal analysis examines an organization's performance, resources, and capabilities to determine its strengths and weaknesses. This is the S and W in the SWOT analysis. For this series of articles, I am addressing how to conduct internal and external analysis separately. However, in practice they must be conducted in conjunction with one another since the way to evaluate your company's strengths and weaknesses is to relate them to the marketplace in which you intend to compete (i.e. the external environment).

As with any planning tool, there are various methods employed to perform an internal analysis.

The method I prefer to use is a four step process that takes external factors into consideration as you develop your company profile.(1)(2)

The first step is to identify your firm's basic resources, capabilities, limitations, and characteristics (i.e. strategic factors). These factors can be tangible, intangible, or human. Here are some typical strategic factors broken down by functional lines. Please note that this list is not exhaustive, it is merely illustrative.

Marketing
Products and services offered
Sales organization
Brand awareness and loyalty

Financial
Profitability
Ability to raise capital
Leverage position

Operations
Efficiency and technology of equipment
Vertical integration, value added, and profit margin
Patents, trademarks, approvals, certifications, etc.

Quality Control
Relationship with customers
Relationships with suppliers
Internal practices to maintain and enhance quality

Management
Organization structure
Management team's ability to achieve objectives
Skills, capabilities, and motivation of managers

The second step is to evaluate your company's current and past performance. Have the results been satisfactory? Are there any indications that performance is either improving or deteriorating? What you are trying to determine is the effectiveness of your current strategic factors. Please note that everyone in your organization should contribute in one fashion or another to performing your internal analysis. Indeed, in this second step it is especially important to include your middle managers as they are often the first ones that realize that your current business strategy is no longer in tune with the marketplace.

The third step is to compare your internal strategic factors to the opportunities and threats that currently exist and those that you expect to exist going forward in the marketplace. This will determine whether your internal strategic factors are competitive advantages, basic business requirements, or vulnerabilities.

Finally, in step four, a company profile is put together that will provide the foundation for your strategy development.

Internal analysis should be based on objective assessments rather than emotionally charged feelings. Therefore, and for obvious reasons, this task it is often difficult for founders and managers that have been at a company many years. That is why consulting firms are often brought in to perform this task (I know, it's a shameless plug for my business, but it's the truth).

The goal of your internal analysis is to fully and thoroughly understand the strengths and weaknesses of your company, as these determine your core competency. You will then use your core competency to achieve competitive advantage. For example, Honda motor company understands that their core competency is not building great cars, but their superior engine design and production. They also understand that this core competency gives them a competitive advantage in other markets besides automobiles and changed their business strategy to include supplying additional markets, such as lawnmowers. This strategy proved to be very effective as Honda quickly became a favorite brand for weekend landscapers (take it from a guy that threw his shoulder out trying to start an old Toro—Honda produces a superior product—one pull and it starts). Had they not done their internal analysis properly, they would have missed out on the additional revenue they generated by entering new markets (and I'd still have a sore shoulder). Therefore, if you do not have a thorough understanding of your business, you could jeopardize not only the future success, but also the future potential of your business.

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Next month we'll continue discussing business strategy development with a look at strategy selection. □

Footnotes:

1- John Pearce and Richard Robinson: Strategic Management: formulation, implementation, and control (Richard D. Irwin 1994)

2- Leslie Rue and Phyllis Holland: Strategic Management (New York: McGraw-Hill, 1989)

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