Strategic Analysis

Idea In Short

Strategic Analysis is the process of researching and analyzing the environment an organization operates in, as well as the organization itself to inform the strategy formulation process. An organization's environment is comprised of two components - the internal environment and the external environment. Both internal and external environments should be scrutinized to identify factors that influence organizations and aid decision-making.

The Strategic management Cycle is an iterative process between strategic planning and implementation. First, you plan a strategy. Then, then you implement it. Once you've implemented the strategy and the effects are visible after a certain duration, you revert to planning and re-defining your strategy. Then, you move to implementation once again. The Strategic Planning Phase is made up of Strategic Analysis and Strategy Formulation. You should complete these activities in this set order. The analysis phase sets the stage for strategy formulation.

How to Conduct a Strategic Analysis?

Depending on the strategy level at which you're completing the strategic analysis, your strategic analysis will vary. For example, the team involved in undertaking a strategic analysis to create a strategic plan for a corporation with multiple businesses will have different focuses compared to the manager of a team within a department of an organization. Regardless of the strategy level you're involved in, the steps involved in strategy analysis are:

1. Understand the strategy level you're analyzing
2. Internal Analysis
3. External Analysis
4. Share Key Findings

The depth and content of your internal and external analysis will vary depending on your strategy level.

Understanding the Strategy Level you're Completing the Analysis for

Strategy comes in different levels depending on where you client stakeholder is in the organization and what size your client organization is. You may be creating a strategy to guide the direction of an entire organization with multiple businesses. Or, you may be creating a strategy for a marketing team. As such, the process will differ for each as there are different objectives and needs for each. The strategy levels include:

1. Corporate Strategy
2. Business Strategy
3. Functional Strategy
4. Operational Strategy

Internal Analysis

During internal analysis, you look inside your client organization and assesses the elements that make up the internal environment. Performing an internal analysis allows you to identify the strengths and weaknesses of your organization. This knowledge combined with that of the external analysis will aid your client management's strategic decision-making. Internal analysis also helps carry out the strategy formulation process. The steps involved in executing an internal analysis are:

1. Assessment of tools to use
2. Research and data collection
3. Analyze information
4. Communicate key findings

Assessment of tools to use

The first step of an internal analysis should be deciding on the tool or framework you will use to conduct the analysis. There are many tools, such as Gap Analysis, Strategy Evaluation, and VRIO that you can use to gain a clear picture of your client's internal environment. You can use more than one tool for internal analysis. The tools you choose should uncover the information and data requirements for your analysis.

Research and data collection

Once you've selected the tool, start researching and collecting data. To collect the required data, enlist the support of your consulting team and client stakeholders. Some examples of data sources are company's financial reports, databases, press releases, strategy documents, product roadmaps, etc. Set up a shared location where every member of the consulting team can access the data you use for your analyses.

Analyze information

After the data research and collection stage, start analyzing the data and information you've gathered. Assess how the data and information you've gathered will potentially impact your client's business. Look at different scenarios, e.g. through sensitivity analysis or Monte Carlo methods, to reveal probable impacts.

Communicate key findings

Finally, share your findings with your consulting team members and client stakeholders involved in the analysis. An internal analysis will highlight an organization's strengths and weaknesses in the areas of their competencies, resources, and competitive advantage. Once complete, the organization should have a clear idea of where they're excelling, where they're doing OK, and where current deficits and gaps lie. The analysis will arm management with the knowledge to exploit their strengths and opportunities. It also allows management to develop strategies to mitigate any threats and compensate for identified weaknesses. Begin strategy formulation after this analysis. This will help ensure that the strategic plan you formulated takes advantage of strengths and opportunities as well as offsets or improves weaknesses and threats. Then, your client can be confident that they are funneling their resources, time, and focus effectively and efficiently.

External Analysis

During external analysis, you look at the external environment that your client operates in. Through this exercise, you understand how external factors currently impact or could potentially impact your client's organization. A key difference between the external and internal factors is organizations generally have little to no control over external factors. On the other hand, organizations generally hold complete control over their internal factors and can change those factors to influence the outcomes. Usually, organizations simply scan and

react to the external environment. Factors external to an organization include the industry the organization operates in, the political, economic, social, demographic, regulatory and legal landscape, communities they operate in, etc. The steps for conducting an external analysis are the same as for internal analysis. Tools, such as PESTLE or Porter's Five Forces help structure to your external analysis.

Share Key Findings

Once you've completed your internal and external analysis and synthesized your key findings, communicate these results with your consulting team and client stakeholders. Chances are that you did not complete the entire analysis on your own. You probably managed the engagement or conducted a particular analysis, while another team member conducted a complementary analysis. Odds are that each team member has a particular piece of information, but no one has the entire picture. Hence, it is important that you schedule a strategy meeting to go through all the key findings that everyone on the consulting team has found. This will help ensure that the entire consulting team and your client stakeholder are on the same page regarding the organization's environment.

Summary

In a constant strive to improve, organizations must periodically conduct a strategic analysis which will, in turn, help them determine what areas need improvement and areas that are already doing well. For an organization to function efficiently, it is important to think about how positive changes need to be implemented. To remain adaptable in a changing business environment—whether the changes are due to a growing number of employees, new government regulations, or anything else—organizations should periodically conduct strategic analysis. Organizations that are part of fast-changing industries should conduct this exercise more frequently than those that are not. Doing an annual strategic market analysis refresh will not only help the organization stay on track over the course of a few years, but can also help inform the annual slate of initiatives the organization launches.